FINANCIALTIMES



Defying the EU UK ministers at the brink



Yeltsin aims at powerful targets

Back to India

brain drain



Today's surveys

R&D Scoreboard

Karadzic offers to resign if his state gains recognition

Bosnian Serb leader Radovan Karadzic, wanted on war crimes charges, offered to resign only if the international community met conditions for the recognition of his mini-state, Republika Srpska. He de clear that he would stand in the Bosnian elections if his demands were not met. Page 14

Malaysia to expand exchange: Singapore's role as the region's financial hub is facing a challenge from Malaysia, which plans to allow compa-nies from other countries to list shares on its main stock exchange. Page 14

Fiat to sell off British subsidiary: Italian vehicle and industrial group Fiat is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year. Page 15

Lloyd's plan wins Names backing: A group representing 2,000 loss-making Lloyd's of London Names voted unanimously to recommend that members accept Lloyd's recovery plan - a decisive step towards ending legal action at the insurance

Air France reported its first annual operating profit of the 1990s but recorded a net loss of nearly FFr3hn (\$570m) after provisions for a voluntary severance scheme and other labour measures. Page 15

Thousands attend Papandreou funeral: Tens of thousands of Greeks gathered for the funeral of Andreas Papandreou, the former prime minister and founder of the Panhellenic Socialist Movement, who died on Sunday, Page 2

General Motors, the world's largest vehicle maker, and the Polish government have agreed a DM450m (\$296m) plan to build a car assembly plant near Katowice, southern Poland. Page 7

German telecoms agreement: Germany'a parliament agreed on a formula to regulate telecommunications after they are liberalised in 1996 but private operators complained the government was not doing enough to ensure fair play. Page 2

Zyuganov alleges Kremlin bias: The Communist candidate in Russia's presidential election, Gennady Zyuganov, accused the Kremlin of breaking the law to ensure a victory for Boris Yeltsin in next week's run-off. Page 3

Seoul spurns trade please South Korea is not expected to respond soon to US and EU pleas to open its car and telecom markets despite its growing trade deficit. Page 7

Locals elections begin in KwaZulu-Natai



Voters in the black township of Umlazi south of Durban queue to cast their votes in local elections in South Africa's KwaZulu-Natal. The province has suffered years of political violence and voting had been delayed three times, but yesterday's polls

International Monetary Fund managing director Michel Camdessus urged trade unions to contribute towards the growth of the global economy. Page 7

Philip Morris ends Dutch campaign: US cigarette maker Philip Morris ended in the Nether-lands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water. Page 3

Seema manuslaughter charge call: An Italian prosecutor has asked for Formula One team man-ager Frank Williams to be tried for alleged manslaughter over the death of world champion driver Ayrton Senna in 1994.

Czech Republic through to Euro 96 final: France's unleaten run of 27 games ended in the Euro 96 semi-finals as the Czech Republic heat them 6-5 on penalties after a goalless game at Manches-ter. They will play the winner of the second semi-final between England and Germany in Sunday's

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Hunting hawks

Reversing the



China

Saudi Arabia blast kills 19 Americans and seriously injures another 64

THURSDAY JUNE 27 1996

Clinton to make terrorism top priority at G7 talks

and Roula Khalaf in London

President Bill Clinton yesterday vowed to track down those responsible for Tuesday's truck bombing of a compound housing US Air Force personnel in Saudi

Mr Clinton said he would make the issue of international terror-ism his "first order of business" at the Group of Seven summit in Lyons which begins today.

A previously unknown group calling itself the Legion of the Martyr Abdullah al-Hazaifi telephoned a London-based Arabic newspaper last night to claim responsibility and vowed to make further attacks unless foreign troops were withdrawn from

The blast is not expected to affect oil supplies from the world's largest exporter. After an initial rise early yesterday, oil markets had settled back by the end of the day.

The Pentagon said the truck bomb blast had left 19 Americans dead and 64 seriously injured. Saudi Arabia said 389 people were wounded in the blast, the second attack against an American target in eight months. A car bomb explosion last November outside a US-run intelligence centre in the Saudi capital of Riyadh

Tuesday's bomb, which left a crater 11 metres deep and 26 metres wide on the street outside the compound, was estimated to contain as much as 2½ tons of explosives. It shattered the front half of the eight-storey building housing American soldiers, which is near the building that was the main centre for allied air operations during the Gulf war.
US officials said the bombing
followed "a series of suspicious

Explosive mix of anger... Foreigners braced -Editorial Comment.

incidents" which led to increased

security measures at the base. The incidents included cars driving slowly by, or stopping briefly. which defence department offi-cials said were considered "low-level" threats.

Two people were said to have fled the vehicle before the explosion. There were reports that Saudi Arabia was offering a \$3m reward for information leading to the arrest of the perpetrators.

Although Israel quickly accused Iran, analysts said Islamic radicals opposed to the US presence in Saudi Arabia and who were responsible for last year's blast were more likely to be behind the attack. The US

embassy in Riyadh received threats of reprisals in anonymous phone calls after four radical Islamic Saudis were executed last month for their involvement in the November bombing. Saudi dissidents in London yesterday

also assumed the attack was the work of violent Islamic groups. Analysts said the blast raised two concerns: that a strong back-lash by the Saudi government would fuel more violence there; and that the deaths of US personnel could lead to a scaling back of the US forces in Saudi Arabia, who number up to estimated 30,000 on a rotating basis.

Mr Clinton said he expected very practical results" from Lyons in the form of proposals to combat terrorism. "Defeating these organised forces of destruction is one of the most important challenges our country faces at the end of this century," he said. He ordered flags at all US federal facilities to be flown at half-mast.

But Mr Clinton said the bombing would not deter the US from maintaining its military presence in the area. "We have worked in close partnership with the Saudis for a long time, since the presidency of Franklin Roosevelt, and I think it would be a mistake for the US to basically change its mission because of this." He said



President Bill Clinton said he would make the issue of terrorism his "first order of business" at today's Group of Seven summit in the
Continued on Page 14 wake of the Sandi Arabla bomb which killed 19 Americans

expansion in east as **Brussels** cuts aid

By Wolfgang Münchau in Frankfurt and Neil Buckley

Volkswageo yesterday shelved all investment plans in eastern Ger-many after the European Commission slashed a state aid pack-age for a car plant by DM241m

VW's move came after the Commission decided to approve only DM539m in and under rules allowing state subsidies to be paid in European Union remons with low living standards and high unemployment,

It blocked the rest because it considered that only part of VW's investment at its plants at Mosel and Chemnitz in Saxony was greenfield development, for which a higher rate of state aid is allowed.

The decision has caused outrage in eastern Germany where it was seen as an attempt to hinder economic reconstruction.

I fear the decision will be seen as a potential signal by investors to bypass Saxony and the other east German states," said Mr Kajo Schommer, economics min-ister of Saxony, "Decisions by the Commission, which so clearly hinder economic reconstruction hinder economic reconstruction, will not exactly serve to strengthen the European ideal among eastern Germans,

VW said the rejection came against a backdrop of a real unemployment rate in eastern Germany of 25 per cent and was especially surprising considering that Volkswagen had planned to belp reconstruct Saxony and create 2,200 new jobs, including 1,200 in supplier industries.

A spokesman for Mr Karel Van Miert, the EU competition commissioner, said part of the invest-ment, and part of the aid supporting the investment, could not be accepted by the Commission using the normal rules, because part of it could not be claimed to be a greenfield concept.

The Commission added that any expansion of Volkswagen's capacity would have a "negative impact" on the car market in western Europe, which is already suffering from over-capacity. It had therefore decided not to

Coutts to focus service on wealthy clients

By George Graham in London

Coutts & Co, the UK private banking arm of the NatWest group, is to overhaul its structure radically as part of a strategy to focus more on services to the wealthy.

The reorganisation will result in 170 job losses this year, about a 10th of the bank's UK workforce, including 62 compulsory redundancies. Another 100 to 170 jobs could go next year.

Mr Herschel Post, chief executive, said the bank was not trying to weed out its many middleclass clients who value tha pres-

cial services groups.

the idea of Coutts concentrating primarily on what I would call red-carpet retail banking," he

Like a number of Swiss private

tige of a current account at Coutis, but these clients would no longer be the bank's main profits come from the small perno longer be the bank's main profits come from the small per- £55m.

and traditional private banks. Coutts is much more profitable

in the UK than overseas. Coutts & Co, the UK arm, improved profits by 5 per cent last year to banks which bave recently £42m (\$64m) before tax, while

Mr Post said the bank would

will be leaving as a result of this process. More bankers are likely tute's exams, which Coutts will insist on in future.

The Coutis restructuring parallels a reorganisation of its par-ent NatWest's UK retail bank network, which is expected to result in 350 branch closures and probably thousands of job cuts.

Bank shifts towards Swiss model, Page 8

centage of clients who come to it reorganise its private banking Mr Post said Coutts had develfor a full range of financial and oped over the past 20 years into investment services, rather than operations into 30 teams, each an upwarket retail bank, providfrom the majority who merely aded by a senior manager and want basic bank accounts. handling 75-100 clients. ing cheque account and credit But competition to manage the All senior managers were services that were open to comasked to step down and face resepetition from lower cost finanmoney of the wealthy is increasing, as the main street banks lection by Mr Post and their fight it out with stockbrokers "We felt uncomfortable with peers. Right top-level managers

Continued on Page 14

Setback for Olivetti hopes as chief prepares to resign

Mr Corrado Passera is poised to resign as chief executive of Olivetti, the Italian computer group, and head of its troubled personal computer subsidiary. His departure would deal a grave blow to the company's image and plans for recovery.

Mr Passera has not yet stepped

down, but Olivetti yesterday put out an uncharacteristically brief and vagua statement from Mr Carlo De Benedetti, chairman and joint chief executive, in which it indicated that Mr Passera had received an alternative job offer. Industry sources said he was certain to leave.

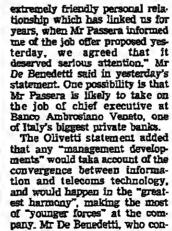
Analysts said the news sent the worst possible signal about the prospects for Olivetti's recovery strategy, which was drawn up by Mr Passera and Mr De Benedetti. Twenty-four hours earlier, Olivetti had deniad growing rumours of the impending resignation of Mr Passera, whom Mr De Benedetti last year indicated would succeed him as chairman. Olivetti is struggling to pull out of losses caused by the poor



Corrado Passera: set to resign as Olivetti chief executive

group. Before Christmas, the group succeeded in raising 1.2,257bn (\$1.45bn) with a record rights issue aimed at restoring profitability and funding further expansion into telecoms.

Since then the shares have performed poorly, only briefly rising above the L1,000 rights issue price. Yesterday, before the Olivetti statement was issued, the shares closed at L850, and anaperformance of its personal comlysts said they were likely to fall puter subsidiary, and to reposisharply today. tion itself as a broad-based tele-"Taking account of the coms and information technology



quoted holding company, said he would convene a board meeting by the end of next month. Earlier in the day he responded to direct questions about Mr Passera's departure by pointing out how other managers who had worked with him had gone on to

trols Olivetti through Cir, his

Olivetti. Last year, Olivetti recorded a consolidated loss of L1,598bn, pushed into the red by beavy

pursue successful careers outside

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By Michael Lindemann in Bonn

Germany's parliament yesterday agreed how to regulate telecommunications after they are fully liberalised in 1998. Private operators, bowever, immediately complained the government was not doing enough to ensure fair play among competitors.

The agreement between the Bundestag, the lower bouse of parliament, and the Bundesrat, the second chamber which represents the 16 Länder or states, ends months of wrangling. The bill will now receive a final reading in the Bundestag before the weekend

Frecovery from crippling recession - and undeterred by persistently sky high

set its sights on an amhitious

new economic target: it is aiming to qualify as a founding

member of European monetary

tion has grown in Helsinki that

the Social Democrat-led, leftright coalition will take a big step in that direction by mov-

has been floating since Septem-

ber 1992, into the European

exchange rate mechanism by the end of the year.

The government believes

that the Emu standards of

tightly controlled public

finances, low inflation, low

interest rates and a stable cur-

rency are exactly the condi-

tions required to regenerate

the long-term growth desper-

ately needed to soak up unem-

It also fears that these vital

elements would be much

harder to sustain if Finland -

which joined the European

outside Europe's economic

time that it is going to be very demanding to get in [to Emn]."

says Mr Johnny Akerholm, the

finance ministry official in

charge of Emu affairs. "But it

is going to be very cold out

there if we stay outside."
The path to Finnish member-

ship, assuming Emu goes

ahead as planned in 1999, could

well be disrupted by a number

of critical factors other than

simply whether the country

We have realised for some

Union only last year - stays

ployment.

inner circle.

ing the Finnish markka, which Writes

unemployment - Finland has tough, but the

in recent weeks, the expecta. reckons that it

and is expected to be enacted after a final passage through the Bundesrat

Leading German companies such as Mannesmann and Veba, which are preparing to compete head-on with Deutsche Telekom, the state-owned monopolist, said they "could live with the new law".

They thought it "scandalous", however, that the government had not informed would-be competitors in advance about discounts of up to 39 per cent which Deutsche Telekom will be allowed to offer business clients from November 1.

Finns aim to be there

It's going to be

when Emu takes off

Helsinki

has little

tion criteria.

alternative.

Hugh Carnegy

meets the technical qualifica-

Mr Paavo Lipponen, the

prime minister, and his conser-

vative finance minister, Mr

Sauli Niinisto, are united in

their pro-Emn stance. But

there are doubters within their

which includes the Left and

Green parties - who are mainly concerned that Emu-

tailored policies impede the

The rate still stands at almost

17 per cent.
Just as important, Finland

will be heavily influenced by

the attitude of neighbouring

Sweden. The powerful pulp

and paper industry is leading

the lobby arguing against mov-

ing into Emu - or even the

ERM - unless Sweden does

The fear is that if Finland

were locked into Emu, while

Sweden was outside, Swedish

industry could gain strong

export advantages for indus-

tries such as the forestry sec-

likewise

reduction of unemployment.

so-called "rainbow coalition" -

government

that Deutsche Telekom could offer the discounts - whose introduction had been delayed 10 months by the European Commission - the government said Deutsche Telekom would have to agree with competitors how much the latter would have to pay to rent Tele-

However, Vebacom, the telecoms subsidiary of the Veba industrial conglomerate, said yesterday that unless a proper regulator oversaw such negotiations, Deutsche Telekom would have no incentive to reach agreement. We have no indication of where

tor by devaluing the krona.
At present, Sweden's Social

Democratic government is taking a cautious line because of

splits within the party and the

country over European policy. Stockholm could well decids to

stay out of both the ERM and

Emu, leaving Finland having to decide whether to go it

That is the worst case that could happen," declares Mr Juha Niemelä, chief executive

of UPM-Kymmene, Europe's

biggest pulp and paper group. "We hope Finland and Sweden

will follow suit in this matter." But Finland is getting the

economic fundamentals

required for Emn into shape.

fall in gross domestic product

hetween 1991 and 1993, the

economy has been growing vig-

crously for the past two years.

This year, the pace of growth

has slowed. Many private sec-

tor economists doubt the gov-

ernment's forecast of 3 per cent

growth this year will be met.

But there will be clearly posi-

tive expansion - at last bring-

ing total output back to 1990

At the same time, the gov-ernment has maintained a

tough stance on the public

finances. Spending cuts alone

have taken the equivalent of 8

per cent of annual GDP out of

the budget since 1992. As a

result, the central government

budget deficit will, at a proj-

ected 1 per cent of GDP, be well within the Emu-required

Government debt, at 63 per

cent of GDP, will be just above the Emu barrier, but falling.

Other key indicators are set to

By Kerin Hope in Athens

Tens of thousands of Greeks

yesterday turned the funeral of

Andreas Papandreou, the for-

mer prime minister who died on Sunday, into a populist gathering of the kind he loved

to address as leader of the Pan-

bellenic Socialist Movement,

The crowd shouted "Andreas

remember, we're with you", as

Mr Papandreou's flag-draped

coffin was carried out of

Athens cathedral and placed

on a gun-carriage. In tempera-

tures approaching 40°C, the

official mourners, led by Mr Papandreou's wife Dimitra,

walked a kilometre to the cem-

etery to applause from crowds

Few international leaders

attended the funeral. One who

did was Mr Felipe González,

Spain's former prime minister. The only Balkan head of state

present, President Slobodan

Milosevic of Yugoslavia, who

received strong support from

Mr Papandreou during the war

in Bosnia, wept profusely. Mr Costas Simitis, the prime

minister, paid tribute in his

address to Mr Papandreou's

efforts to modernise Greece but

glossed over the controversial

policies that distanced the

country from its western part-

ners for much of the 1980s. More unexpectedly, Mr

George Papandreou, the educa-

lining the streets.

the party he founded.

levels next year.

After suffering a 15 per cent

nor of a timetable for them," a Veba-com spokesman said. "That's what we need a proper regulator for. That's the way it happens everywhere in the

Mr Wolfgang Bötsch, post and telecoms minister, insisted yesterday that the new law would create the basis for a liberal telecoms regime after

The opposition Social Democrats, who control the Bundesrat, had attempted to ensure each telecoms licence issued after 1998 be tailored to cover both urban and rural areas, but

Finland's economy: the outlook brightens

Having announced earlier this week these talks are supposed to take us, a ministry spokesman said such demands had been rejected. In line with Mr Bötsch's original proposals, licences will still be available to any operator who meets certain technical standards and can cover whatever

area suits the operator. The Länder had also tried to exert substantial political inflnence over tha future regulatory authority, but the government and the SPD agreed on a compromise whereby an 18strong advisory council made up of Bundestag and Bundesrat members would be consulted about appointments at the regulatory authority.

Annual % change

EUROPEAN NEWS DIGEST

German rate of inflation 1.2%

Western Germany's annual rate of inflation fell in June to 1.2 per cent, reverting to the level reported for April and down from May's 1.5 per cent, according to provisional figures published yesterday. Announcing data based on returns from four of Germany's

16 states, the federal statistics office said the cost of living in western Germany was unchanged between May and June. Falling car prices were a key factor holding down prices this month. Yesterday's news prompted some speculation that the Bundesbank council might trim the securities repurchase rate today. The repo rate, which determines short-term money

market rates, has stood at 3.30 per cent since early February. The 1.2 per cent year-on-year inflation rates for April and June are the lowest since August 1988. The Frankfurt office of UBS, the Swiss bank, yesterday forecast further, "albeit very moderate", falls in inflation

towards 1 per cent", before a gradual upturn towards the end

'Guillotine' for France Télécom Mr Alain Juppé, the French prime minister, resorted to a special parliamentary "guillotine" procedure yesterday to push through the lower house a draft bill that would partially

privatise the state-run France Telecom. The opposition Socialists and Communists, who vigorously oppose the plan to change the legal status of the phone company into a joint stock company from 1997, have

submitted some 500 amendments to delay voting on the bill. The guillotine procedure, spelled out in article 49-3 of the French constitution, would link opposition to the bill to a no-confidence motion. The bill would antomatically pass unless the opposition tabled a no-confidence motion within 24

The Socialist and Communist parties said they would table a no-confidence motion if Mr Juppé used the procedure. Mr Juppe is under pressure to obtain approval of the bill before Saturday when parliament goes into summer recess. The draft bill is in line with European Commission directives on opening up the French market to competition and enabling companies to enter into international alliances. Reuter, Port

Bulgarian pledge on austerity

Mr Roumen Gechev, the Bulgarian deputy prime minister and economics minister, yesterday vowed the Socialist government would not be deflected from tough austerity measures designed to tackle an economic crisis. "Despite the difficulty of the situation we cannot allow

under any circumstances cheap short-term political dividends st the expense of Bulgaria's long term economic stabilisation." Mr Gechev told an international banking conference in Sofia. He said plans to close down 64 loss-making state companies

and to cut off credits to a further 70 - the key elements of a package agreed with international lenders - were essential for the country's economic survival. The measures would eliminate some 70 per cent of losses sustained by the economy in 1995, said Mr Gechev. The austerity measures, which include increases in taxes and fuel prices, have sparked angry demonstrations in Sofia and other cities.

Mr Gechev conceded that the reforms should have been started much earlier but said parliament would not have accepted the closure or drastic restructuring of enterprises last year when Bulgaria's macroeconomic indicators had been

Compensation for French robber The Council of Europe yesterday ordered France to pay

compensation to a man who was convicted of armed robbery and jailed for eight years based on evidence obtained from wiretaps

In 1989, a judge investigating Yves Peigner, 46, on suspicion of fraud over the management of a restaurant in the southern town of Montpellier, ordered his telephone tapped. In a later probe in the south-eastern town of Draguignan, the tapes were used as evidence to convict him of armed robbery.

The 39-nation Council of Europe, which acts in the place of the European Court of Human Rights in some cases, ruled that the tapping was a breach of Peigner's right to privacy and ordered France to pay him FFr7,500 (\$1,250). The Council ordered France in March to pay compensation to three people whose phones were bugged in the 1980s.

A 1991 law regulated the use of wiretaps more strictly in France, but there has been continuing controversy about alleged abuses by the security services and political Reuter Strasbourg

Irish crime reporter shot dead Veronica Guerin, the award-winning Irish journalist, was shot dead yesterday near her Dublin home, the victim of apparent

Mrs Guerin, an investigative reporter with the Irish independent, was awarded the International Press Freedom Award in 1995 for her work on Dublin's crime underworld. She was wounded last year when she was shot outside her Dublin. home. She then told reporters from her hospital bed: "I won't

Mr John Bruton, the Irish prime minister, said her murder was "an attack on democracy". John Murroy Brown, Dublin

Last Yiddish daily paper to close

The world's last daily Yiddish newspaper, Unzer Wort (Our Word), will fold at the end of this month, a victim of the rising costs in the French press. Unzer Wort had already dwindled down to just three or four issues a week in recent years. It was staffed by half a dozen full-time personnel, mostly in their late 70s, aided by volunteers who sought to preserve the language f east European Jewry.

The newspaper, whose aged readership were immigrants who came to France in the 1930s and 40s, got a new lease on life with the end of Communism seven years ago. Subscription demands arrived from east European countries where small Jewish communities had survived both Nazl extermination and Communist pressures, and daily circulation crept up to 4,000. But higher costs made closing the paper inevitable, staff

Spanish growth slows down

ECONOMIC WATCH

GDP, annual % change

Spain.

Private pensions get off ground in France

More than half a million people have takan advantage of France's first gradual moves towards private pension schemes, according to the country's insurance industry

body. By the end of last year just over 600,000 contracts had been taken out by those eligible under a law sponsored by Mr Alain Madelin, the former economics minister, and passed in

The Madelin law allows individuals who are not employees to ohtain tax deductions against payments they make into retirement funds, and

health and accident insurance. It was a first move towards personal pension funds, which remain a highly sensitive polit-Ical topic in France hecause the government, unions and employers have controlled retirement funds tightly up until now. Mr Jean Arthuis, the current economics minister, recently promised to announce wider-ranging measures later this eyar, although

repeatedly delayed. Total premiums collected last year under the law amounted to FFr3.6bn (\$700m). Some 125,000 contracts have been taken out specifically for

the initiative has already been

further 480,000 for other forms of assurance including health. The FFSA, the French federation of insurance companies. argued that the figures showed relative success for the law. with 10 per cent of those eligible taking out contracts, and total premiums only margin-

ally less than projected. The statistics were contained in the organisation's annual report, which showed a significant rise in income for French insurers last year in spite of the sluggish economy

The 329 members of the FFSA, the French federation of insurance companies, generated turnover of FFr950bn, up retirement objectives, with a by 7.1 per cent on the year

before, moving the country up from fifth to fourth largest market in the world.

After four years almost with out profits across the non-life sector, insurers reported aggregate profits of FFr5.5bn. Profits in the life assurance sector continued to decline, to FF75.3bn.

Nearly 47 per cent of total non-life premiums last year were paid for car policies, with a further 14 per cent for multirisk household insurance cover and 13 per cent for corporate insurance contracts.

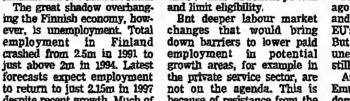
The FFSA report showed a sharp rise in people using branch networks of banks, the post office and other financial

institutions to buy insurance contracts. The proportion rose from 42 per cent of life assurance sales in 1991 to 56 per cent last year, and for non-life products from 1 per cent to 4

per cent over the same period. The figures show that insurers have been sharply reducing their investment in property. which has caused heavy losses among French financial institutions in the past few years. The average proportion of the sector's portfolios invested fell to 9 per cent last year from 20 per cent in 1982.

French insurers employed 197,000 people during 1995, down slightly on the previous





despite recent growth. Much of the recovery has been in capital-intensive export industries, while domestic industries such as banking are still shedding workers.

This year, the "rainbow" government has taken steps to

ba comfortably in line with

required performance, Inflation

is expected to reach 2 per cent

next year, while the current

account is set to remain firmly

in surplus, underpinning the

recently restored health of the

markka and low interest rates.

economist for Enskilda

Finland's rigid labour markets. Rules on welfare entitlements. which in some cases allowed the unemployed benefits of more than 100 per cent of previous salary, have been tightened to shorten benefit periods and limit eligibility.

introduce more flexibility to

because of resistance from the strong trade union movement and from within the SDP. "There is a lot more that could be done, but politically it is very hard to make these changes," says Mr Eski Torsti,

Research in Helsinki. Instead, the government's strategy is to take the Emu fiscal medicine and wait for the economy to respond.

The example often cited by Finnish officials is Ireland, where a fiscal crisis of a decade ago has been turned around But deeper labour market and Ireland has become the EU's fastest growing economy. But the ominous fact is that

> still in double figures. As the prospect of ERM and Emu membership come closer, domestic political objections fuelled by unemployment are bound to increase.

If Sweden decides to stav out, they may become irresistible. But for the moment at least, the government is deter-

mined to join the Emu club. Socialist party battles put aside as Papandreou is buried in Athens

German court orders spy to repay earnings

By Michael Lindemann in Bonn

Karl Wienand, once a leading member of Germany's Social Democratic party, was yesterday ordered to repay DM1m (\$660,000) which he earned as a spy for the Stasi, the East German secret police. The court ruling ended one of the country's most important spy cases since the fall of the Berlin wall in 1989.

A court in Düsseldorf also sentenced Wienand, 69, who managed the SPD's parliamentary party while it was tn power in the 1970s, to two and a half years in prison. Wienand had been, according to the court, "an extremely important informer" who had earned DM1.3m for helping the Stasi between 1976 and 1989.

Prosecutors had songht a three-year prison sentence for Wienand, who immediately said that be would appeal against the verdict. "I never worked for the Stasi nor did 1 ever receive any money from

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political parties.

Krantz, the presiding judge. the SPD's parliamentary party in the early 1970s who had closer contacts with the Com-

Investigators who were processing the Stasi files after the reunification of Germany hit upon Wienand in 1993 when they came across a file codenamed "Streit", the cover for a member of the SPD who was over 60 and lived in the Rhine-

During his 13 years of service, Wienand handed the

The court said Mr Heribert Wehner, weli-known head of been instrumental in forging munist regime in former East

During his time as SPD

Stasi reports about the state of German politics and details of developments within the SPD. one of Germany's two main "He never passed on special

Germany, had known of Wienand's contacts with the Stasi.

party manager in 1972 Wien-and was publicly alleged to have paid Mr Julius Steiner, a Christian Democrat deputy, DM50,000 not to vote against Mr Willi Brandt. Germany's then chancellor, in a vote of no confidence which Mr Brandt won with two votes.

Funeral unites Greeks briefly

Papandreou's widow Dimitra at the funeral yesterday with the former premier's three sons

premier's eldest son, made a sture of reconciliation to Mrs Dimitra Papandreou as "a woman of courage who stood by our father in his last years".

Mr Papandreou's ex-wife Margaret, who agreed to divorce her husband after his much-publicised affair with the former Olympic Airways stew-arcess was seen to be denting his popularity, was also present, standing close to the coffin with her other three children. Eulogies from political opponents underlined a moment of unity that was inevitably short-lived. Mr Simitis faces a

fierce battle to succeed Mr

Papandreon as Pasok's leader

at a congress that opens today. Mr Papandreou, 77, resigned the premiership in January but remained party leader despite failing health. He also refused to back Mr Simitis, whom he disliked for displaying independence, to take over. Memories of Mr Papan-

dreon's powerful personality and inimitable rhetoric will overshadow the congress, to the possible advantage of Mr Simitis's hardline rivals. They would prefer to organise a collective leadership until next year's general election. One hardline leader, Mr Akis Tsochatzopoulos, the public administration minister, who

However, Mr Simitis, who heads the party's pro-European wing, has threatened to resign as prime minister if he fails to be elected party chairman. Since he is the most likely politician to win the general election, according to opinion polls, his threat to stand down should ontweigh the feeling among delegates that no single Socialist can replace Mr Papandreou at the helm of Pasok.

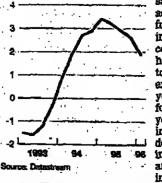
lost the premiership battle in

January but commands strong

support among the 5,000 dele

gates attending the congress, wants to split the jobs of prime

minister and party leader and take control of Pasok himself.



Spain's gross domestic product in the first quarter grew 1.9 per cent from the same period last year, according to official figures from the national statistics

institute. The new centre-right government is hoping for a modest recovery to achieve a 2.3 per cent expansion in GDP for the year as a whole, and has forecast a stronger rate next year. The rate, slightly below initial estimates, confirmed a downward trend that has set 98 in since early 1995, and analysts expect little sign of improvement before the third-

quarter. The institute also revised downwards its growth figure for the final quarter of last year, from 2.6 per cent to 2.5 per cent. The first quarter showed a fall in investment growth. especially in the construction sector. David White, Matrid Sweden's producer price index was down 0.6 per cent in May from April and down 2.9 per cent from a year earlier.

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Kremlin tide Yeltsin's new strongmen rally round John Thornhill examines the combative president's coup against the Kremlin's old guard turns against Communists

Mr Gennady Zyuganov, the Communist candidate whose hopes of becoming Russia's next president have steadily receded over the past few weeks, yesterday accused the Kremlin of breaking the law to ensure a victory for Mr Boris Yeltsin in next week's run-off.

But the Communist leader's formal accusation was dis-missed as sour grapes by the Yeltsin campaign and it seemed unlikely to sway the pro-Yeltsin officials who regulate the elections.

Mr Zyuganov, who turned 52 yesterday, celebrated the occasion with a ringing attack on his rival, whom he accused of pressuring regional officials to ensure a pro-Yeltsin vote and buying aupport with caah handouts. Tha Communists also launched legal proceed-ings against election officials, telling the courts that results from the first round of voting in one Russian region had been falsified in the incumbent's

'Many regional leaders have been warned that they will not remain in their posts if Mr Yeltsin loses in their region," Mr Zyuganov said. "Such illegal practices in preparation for the election and in the election campaign can bring into question the very results of voting for Mr Yeltsin."

However, the Communist allegations dld not seem to

turn-out for the July 3 ballot, which presidential aides believe is the key to Mr Yeltsin's re-election bid.

"We have to do everything to ensure a high turn-out," Mr Yeltsin yesterday told a group of regional leaders. "Be unsparing in your efforts - convince, organise, use every possibil-

Mr Oleg Lobov, a long-time Yeltsin ally recently promoted to the joh of first deputy prime minister, went even further. warning regional leaders that they could be sacked if voter participation was low in their

He urged local bosses to reward elderly and disadvan-taged voters with small gifts for coming to the polls.

Mr Yeltsin and his lieutenants also attacked some provincial factory managers for planning to give their workers impromtu holidays next Thursday and Friday. Doing so would defeat the purpose of the mid-week election date ~ an unusual timing decreed by the government to capture voters who might otherwise be in their countryside dachas.

Although the run-off is still one week away, the Russian president has already been endorsed by the country's stock market.

The Moscow bourse continued to surge yesterday, buoyed by the growing confidence among western and domestic investors that Mr Yeltsin is

r Boris Yeltsin, fight-ing fiercely to remain Russian presldent, has this month done the seemingly unimaginable in sacking the heads of the country's military forces, security service, and presidential guard

- just when he might need One of the centuries-old rules of Kremlin politics appeared to be that no Russian leader could hope to survive if he antagonised all his strongmen simultaneously.

In medieval times, the fearsome Kremlin guards, known as the Streltsy, had a habit of impaling unpopular rulers on their pikes. Mr Mikhail Gorbachev, the last Soviet president, suffered the modern equivalent by provoking the hardline coup of August 1991.

The loyalty of the armed services could soon be tested if any civil disturbances mar the presidential elections. The Communist party has already said it will stage mass protests if it suspects any falsification

Both Mr Alexander Korzhakov, tha head of the presidential guard, and General Pavel Grachav, the defence minister, have proved their loyalty to the president in the heat of the battle. Mr Korzhakov stood by Mr Yeltsin in August 1991 when he faced down the hardline communist

Gen Grachev sent the tanks back to the same building two years later to crush a parliamentary revolt.

But Mr Yeltsin has sacrificed both these loyal servants to his immediate political ambitions. Gen Grachev's head was the price Mr Alexander Lebed, the president's newly-appointed



before joining the government: while Mr Korzhakov, who appears to have been preparing the ground for Mr Yeltsin to postpone the elections and rule by force, fell victim to the president's desire to appease his

Mr Yeltsin started chasing the hawks from the Kremlin early last week by sacking Gen Grachev, who has been vilified for his bungling conduct of the Chechen war. This week, the combative president also dumped seven army generals closely associated with Gen

Mr Lebed initially hinted these generals had been plan-

ning a coup. But the former army commander and losing presidential candidate, who appears over-fond of the dramatic statement, later admitted he had been exaggerating. Gen Grachev's aldes hotly denied any conspiracy and said the generals who gathered in the minister's office were there to bid him a "manly farewell", The fallen defence minister has

sinca been reported to be playing volleyball at his dacha. Some of the general staff at the ministry's headquarters. however, appear to be in a state of mild panic about the arrival of Mr Lebed. There have been reports of senior

army officers destroying files and erasing computer discs. Mr Lebed has scarcely been able to conceal his personal animosity towards Gen Grachev and his cronies. "1 don't like prostitutes," Mr Lebed said of the former defence ministar, "whether in

a skirt or in trousers." Mr Yeltsin's move last week to sack Mr Korzhakov, his long-time bodyguard and confi-dant, has provoked even more surprise. In an interview published yesterday by the Argumenti i Fakti newspaper, Mr Yeltsin described Mr Korzhak-ov's dismissal as the "trickiest sonal debt to a man who had

been with him "in the most difficult times and the most dangerous moments". After the bloody parliamentary uprising of October 1993,

Mr Yeltsin bad bolstered Mr Korzhakov and poured resources into building up the 30,000-strong presidential

Mr Korzhakov himself was quick to make clear his full support for the president despite his dismissal. "I have backed the president and I will continue to do so," he said. "1 am not quitting the president's team and will do my best for Boris Yeltsin's victory in the

Nezavisimaya Gazeta newspaper reported there had been considerable disquiet about Mr Korzhakov's sacking among the presidential guard.

The Federal Security Service (FSB), heir to the KGB, seems to have reacted calmly to the sacking of its head, Mr Mikhail Barsukov, a close ally of Mr Korzhakov who was also alleged to have dabbled unwisely in the president's election campaign.

Mr Barsukov, who was appointed only last summer. has not made a big impact at the FSB.

The organisation has grown used to top-level upheavals, with seven new chiefs being appointed since 1991, and appears more interested in lobbying for more resources than in plotting coups.

Counter-intelligence officers are weary for lack of money and questions of state security take second place in their frank conversations," one commentator wrote.
If Mr Yeltsin did worry about

the destabilising effect of jettisoning all his old security chiefs, he may have comforted himself with the thought that the booming-voiced Mr Lebed appears highly popular among the army rank-and-file, if not the top brass, and could sway things his way in an

Then again, there remains the possibility that Mr Yeltsin has only temporarily ditched Mr Korzhakov and Mr Barsukov and will restore them to favour after the political heat of the pre-election season

"They are professionals and their life does not end here," one of Mr Yeltsin's aides said

Nasdaq-style system for Ukraine securities

By Matthew Kaminski in Kiev

Ukraine's primitive securities market will gain a little sophistication next week when 'over the counter" electronic stock trading starts, based on the Nasdaq system in the US. The system, unveiled yester-

day at a Kiev investor conference, aims to create an lowing the belated start of Ukraine's privatisation and economic reform. Mr Yuri Tchopko, executive

director of the Ukrainian OTC Stock Trading Association, said a more transparent securities market would ease foreign investment and give a jolt to the country's economic transition.

Eighty-five securities firms bave been electronically con-nected in the four largest Ukrainian cities of Donetsk, Kharkiv, Dnepropetrovsk and the capital, Kiev.

The computer link will make possible "real time" trading based on "firm" quotations both novel concepts in The independent, self-regula-

tory association plans shortly to make it possible to trade government bonds and open a link up to the Russian Trading

System, the main OTC market in Russia. The infant equities market today relies strictly on the telephone and the motor vehicle, where investors spend hours if not days rounding up sbares in privatised enter-prises from directors or individual holders. The badly managed Ukralnian Stock Exchange has been a failure

from its birth five years ago western official who helped set np Ukraine's OTC market said a realistic estlmated would be that today \$30m in shares changed

hands each week despite the

difficulties. Ukraine could follow the path forged by Russia, where chaotic stock warkets have grown several times over and currently report trade of about \$30m a day, the official added. "Developmentally it's about two or three years behind

But Ukraine shares another less desirable feature of the Russian market in lacking a proper regulatory framework. A securities exchange commission was established last year, but its powers are only now being defined. No central depository or custodian ser-

Ukraine's OTC market "is

like a train for which the tracks have not yet been laid", said Mr Serhel Oksanych, president of Kinto, a leading Kiev investment house.

"If you have no infrastructure, foreign institutional investors can not work seri-ously in Ukralne," said Mr Oksanych.

The World Bank's \$310m enterprise development loan, approve today, stipulates that the securities exchange commission must be given more regulatory anthority in the

coming months.
While Russia finished mass privatisation two years ago, Ukraine's sell-offs have only begun to create a private sec tor. The state property fund said 2,048 large and medium companies had been privatised, out of an estimated total

remain off the anction block, either frozen through a lease to the workers or kept back for future sale by tender "There's a shortage of liquid assets," Mr Oksanych said.

Ukraine, estimated the share of the private sector in the

Mr Ihor Geller, in a report in the magazine Privatisation

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Philip Morris to end controversial campaign

By Gordon Cramb in Amsterdam, Andrew Jack Roderick Oram in London

Philip Morris, the US cigarette maker, said yesterday it bad ended in the Netherlands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water.

The campaign, the latest in a series by the US company fighting for "smokers' rights". has drawn angry responses from politicians, health advocates, other industries and the general public across Europe.

The French biscuit industry association on Tuesday won an injunction against the advertisements. Philip Morris yesterday expressed its "surprise and shock" at the ruling but said it hoped to win an appeal. The company successfully appealed in Belgium last Friday, allowing it to resume advertising

Mrs Els Borst, the Dutch health minister, had condemned the campaign as misleading. Passive smoking "is completely different from eat-

ing cookies, because you can't choose not to", she argued recently, in a letter to Mrs Borst, Mr Jules Wilhelmus of Philip Morris Europe said: "The European campaign about passive smoking has today had its last appearance

in the Dutch media." The advertisements had run as long as planned and the termination was unprompted by criticism by the Dutch minister, a court ban in France or other complaints across the continent, Mr David Greenberg, the group's European vice-president for public affairs

"We're astounded delighted with the level of discussion about passive smoking. We've accomplished our mission," said Mr Greenberg.

The campaign started in early June in newspapers and magazines across the continent but was winding down except in Germany, where it had started later, he added. "Only a couple of publications" had declined to take the advertisements, of which Le Monde in France was the most promi-

Philip Morris said the purpose of the campaign was to tific studies to overturn the public perception that inhaling smoke from other people's cigarettes was damaging to one's bealth.

particularly incensed bakers by claiming that eating one biscuit a day was more dangerous than being subjected to other people'a tobacco

British bakers have been one of some 20 organisations or individuals in the UK who have complained about the campaign, the UK Advertising Standards Authority said

"That is an average number for a general complaint but it is probably a low number for a campaign dealing with a con-tentious issue," said Ms Caroline Crawford, the ASA's director of communications. The ASA will take several weeks to

review the case. The French national committee against excessive smoking, which is supported by the French ministry of health, has said it would launch a legal action against Philip Morris for a campaign which it argued

Japanese former housing loan chief arrested

Japanese police yesterday arrested the former head of Japan's largest iusen (housing loan company) and six others, the first senior executives to face criminal charges over the multibillion-dollar collapse of seven mort-

gage lenders. Mr Noboru Kawahara, 71, who retired as president of Nippon Housing Loan in 1992, is suspected of authorising loans totalling Y1.9bn (\$17.4m) to an insolvent Tokyo property developer, without collateral and

in full knowledge that the money would never be repaid.

arrested," said the IBJ yesterday. the property speculation bubble of the Yesterday's arrests, unlikely to be late 1980s, NHL, set up in 1976, was a

would never be repaid. He was arrested with three former colleagues and three executives of the property company, OCT, which went bankrupt, owing Y39.2bn, a year after Mr Kawahara's retirement.

Mr Kawahara's arrest is an embarrassment for the Industrial Bank of Japan, the country's top corporate lender, and the leader of NHL's five institutional founders. "It was truly regrettable that Mippon Housing Loan officials, particularly those who originally came from this bank, were

the last in the jusen fiasco, are also a sign of prosecutors' eagerness to assuage public outrage, stoked up by an unpopular government plan, adopted by parliament only last week. to spend up to Y685bn of taxpayers' money on liquidating the jusen.

Jusen were set up by private sector banks, encouraged by the finance ministry, in the 1970s to help a newly affluent generation of urban-white collar workers buy their own homes. But the jusen were fatally drawn into

late starter in the just industry, but Mr Kawahara, who became company president in 1981, turned it into the largest participant by the end of the

Yesterday, NHL became the first jusen to be wound up, a casualty of its own profligate lending and the property collapse. NHL has loans outstanding of just over Y2,000bn, of which its exposure to OCT is a small part. Of the total, Y1,047bn is believed to be irrecoverable.

industry officials yesterday speculated that more arrests of other jusen executives would follow. "Public prosecutors want to show they are at least making an effort to clear up the scandal but I do not know how far they are prepared to dig." said one execu-

• Mr Taku Yamasaki, the LDP's top policy maker, yesterday said Japan would face an election by the year's end, confirming recent speculation among political observers in Tokyo, that the government would go to the country in the late autumn.

Beijing air chief visits

The chairman of China National Aviation Corpora-tion, business arm of Beijing's aviation authority, is to visit Taiwan today, a sign that frosty cross-strait ties may be

The arrival of Mr Wang Guixiang, who is also chair-man of Hong Kong's Dragonair and Air Macau, will have political as well as commercial significance, as Mr Wang is likely to meet Mr Koo Chen-fu, a leading Taiwanese industri-alist who is also a senior figme in the ruling Nationalist party and Taipen's chief nego-tiator with Beijing.

The visit is a rare visit by a senior industrialist from China, and suggests that both sides are looking ahead to the resumption of direct flights between Taiwan and China. severed in 1949.

Both sides of the strait are keen to restore direct air and sea links, but they have been held up by disagreement over the terms of the arrangement. Taipei wants such routes to be considered an international ronte, but Beijing insists that they should considered domes-

tic routes. Mr Wang will probably also meet Mr Chang Kno-cheng. acting director of Taiwan's Civil Aeronautics Administration, and other officials who would be involved in future talks on the resumption of direct flights. He may also meet executives in the private sector airline industry.

Peng to attend Hanoi congress

ASIA-PACIFIC NEWS DIGEST

Chinese premier Li Peng arrives in Hanoi today at the head of a Chinese Communist party delegation to Vietnam's eighth Communist party congress, which starts tomorrow. It will be the first such visit by Chinese communist party officials for over 35 years, a Chinese embassy official said yesterday.

Meanwhile, Vietnam's top three Communist leaders are likely to be retained after party cadres on Tuesday voted to include the trio in a new Central Committee, which is ranked below the politburo. The vote will ensure political leadership continuity with Mr Do Muoi, party secretary, 80, President Le Duc Anh, 76, and reformist Prime Minister Vo Van Kiet, 74 at the helm, but reflects the difficulty the party has had in finding suitable successors.

Diplomats note that in spite of sharp differences at government level, relations between the two Communist parties have been relatively smooth. "Ideologically, their view about the development of their countries are very close. The party bureaucrais understand each other very well," said one east European diplomat. Jeremy Grant, Hano

Harder line on Sumitomo rating

Moody's Investors Service, the US credit rating agency, yesterday it would expand its review of Sumitomo Corporation for a possible downgrade because of increasing uncertainty over the size of the company's losses on copper trading. The decision to extend the review to include short-term debt reflected the lack of disclosure by Sumitomo and Japanes financial authorities.

Moody'a announced it would review Sumitomo's long-term debt after the company said on June 13 it had lost \$1.8hn in copper trading. Three-month copper recovered to close at \$1,799.50 a tonne on the London Metal Exchange. Sumitomo's shares lost another Y14 to Y966 on the Tokyo stock Emiko Terezono, Tokuo

Australian telephone challenge

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Optus Vision, the Australian communications and pay television group, yesterday launched its new local telephone call service, breaking state-owned carrier Telstra's long-held market monopoly. Optus Vision is expected to cut the price of a local call up to 40 per cent from Telstra's current price of 25.

Australian cents (20 US cents) for untimed calls. The Optus service will only be available to homes it has connected to its A\$4bn fibre-optic cable network, currently about 1m of Australia's 6.7m households. In anticipation of the launch, Telstra, which is earmarked for privatisation, has not lifted the price of a local call for three years and has cut the prices of its international and interstate calls by about 25 per cent. The Optus Vision launch comes 12 months before full deregulation of Australia's telephone market. Sydney, Reute.

Probe into soft loan scheme

Controversy over the Australian federal government's decision to axe the Development Import Finance Facility, a A\$120m (US\$95m) "soft loan" scheme used mainly to aid projects in Asia, escalated yesterday, with the Senate setting up an inquiry into the matter. The move was supported by Labor and the minor parties who hold the balance of power in parliament's upper house. But it was immediately attacked by Senator Robert Hill, government's leader in the Senata, who claimed the inquiry was simply a political tool for attacking Mr Alexander Downer, foreign minister, whose handling of the issue has been less than skilled. Nikki Tait, Sydney

India seeks to reverse its brain drain

The push is on to attract wealth and skills of 15m non-residents, writes James Kynge

t home in New Delhi one night, Mr Deepak Banker was watching a television programme on an attempt to repair the US Hubble teleacope in space. It emerged that the mastermind behind the successful operation was a 35-year-old ethnic Indian from Madras.

"We have to get that kid to come back to India," said Mr Banker, president of the Federation of Indian Chambers of Commerce and Industry, an organisation which groups 120,000 companies throughout India. "We must reverse the brain drain.

His aspiration was common to many participants at an unusual gathering last week in Singapore. The first meeting of entrepreneurs from the worldwide Indian diaspora, its main preoccupation was how to attract the wealth and skills of 15m overseas Indians to help in modernising a country with a population of 930m.

successfully funnelling overseas Chinese money back to China, was offering its services as a catalyst in what it hopes will be a flood of investments from non-resident Indians (NRIs) to their ancestral home.

For a while, everything went according to plan. Mr P. Chidambaram, India's finance minister, made an npbeat address, promising that freemarket reforms begun in India five years ago are too entrenched to be rolled back. He assured people his new coalition government, composed of 13 parties, was stable, because its decisions represented a broad consensus. He then appealed for investments. "You are welcome to India because you have the ideas, the skills and the technology we need," said Mr. Chidamcome because you are Indian. Singapore leaders also made their pitch. Mr Lee Hsien

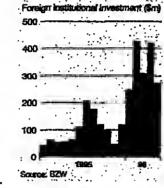
'We have been putting up with a hard life in India while they have been living in luxury abroad. Why should we welcome them now like masters of a new raj?'

Singapore, with its record of Loong, deputy prime minister, said his city state would pro-vide a congenial place for NRIs to do business in the Asia-Pacific region. With its multiracial society, in which Indians are a significant minority, Singapore would be a good

springboard into India. Between 1983 and 1994, overseas Chinese poured US\$70bn (£46.6bn) into China, two-thirds of its total FDI (foreign direct investment)," Mr Lee said. "The potential for NRIs to raise their investments in India is large, once they see they are welcome and can contribute to and benefit from changes under way."

For many NRIs, the picture did not seem rosy. In one session, they railed against a plethora of problems. One complained that sending a fax is often impossible; it is sometimes quicker to deliver a message in person than send it by

Mr Vijay Rangarajan, who India's pulling power



runs a software company in

"you must bribe seven people".

Despite the griping, there are signs many NRIs are actively looking for investment opportunities in India. Several foreign banks have set up divisions to manage NRI business. Estimates of the total net worth of the diaspora vary widely but most put the figure at \$150bn-\$300bn.

There is an impression the

California, said be often has to wait nine months for customs clearance for computers he sends to a venture in Bangalore. Another senior businessman, speaking privately, said that to get any one task done,

> spawn new portfolio and commercial investments.

sive works, the scope of banking activities is likely to widen. Mr Ajit Kumar, chief com-missioner for NRI Investments at India's finance ministry, said the government wants to attract \$10bn in foreign direct investment every year, a big jump from some \$2bn seen last year. He did not have a figure for NRI investments into India so far, but said swelling funds in NRI rupee deposits should

process of reform in India is

irreversible and that each state

is doing its best to attract

investment," said Mr Ravish

Chopra, senior executive for

Indian husiness development at the Hongkong and Shanghai

Banking Corporation in Hong

Kong. People are beginning to look at projects more seriously

now that the new government

Most NRI businesa has

tended to flow through banks

which combine an interna-

tional presence with an Indian

branch network, often a ves-tige of British colonial rule.

The Standard Chartered Bank

and the Australia and New

Zealand Banking Group, both of which have a branch net-

work in India, run a significant

So far, the lion's share of

banking operations has con-

centrated on deposits in high-

interest rupee accounts

designed specially for NRI

money. If India's charm offen-

amount of NRI business.

has shown itself pro-reform,"

ha added.

Certain rules favour NRIs over other foreign investors, including a 5 per cent alloca-tion for NRIs in the shares of

Taiwan initial public offers. Another stipulates that only those foreign companies with an NRI

By Laura Tyson in Taipei

NRIs can transform India the way oversees Chinese invest-ments have driven China's modernisation. India does not beginning to thaw. have a Hong Kong or a Taiwan offshore: its diaspora is more dispersed than the 55m Chinese living ontside mainland China. Overseas Chinese retain links to their ancestral land through a network of associa-

have fewer institutions to ensure ethnic cohesion. Some observers say that while the red carpet was rontinely rolled out for overseas Chinese investors in China in the 1980s, NRIs sometimes encounter resentment from

their countrymen. "We have been putting up with the hard life in India while they have been living in luxury abroad. Why should we just welcome them back now like masters of a new rai?" said one Indian commentator at the conference, "A lot of people are not keen on seeing them back."

share of more than 60 per cent

are allowed to engage in real

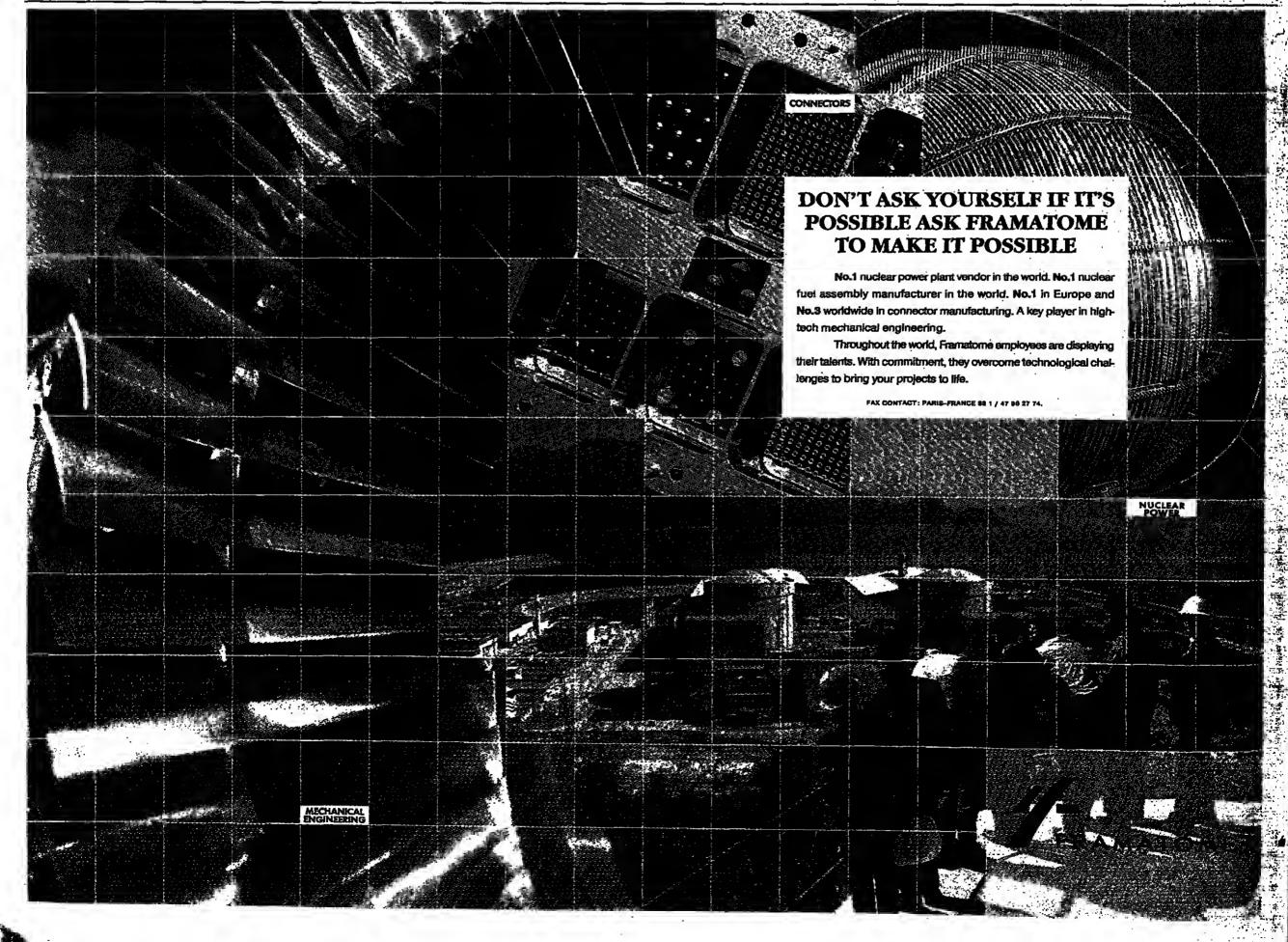
tions prominent to the cities

they inhabit. Indians abroad

Analysts say it is unlikely

estate developm

The pattern and pace of India's growth could depend on whether this sentiment or that of the ICCI's investor-friendly Mr Banker prevails. To many NRIs who have taken the plunge, the question is academic. It's tough sometimes, but who cares? We could get very rich," said one NRI electronics manufacturer in Banga-



Clinton aide quits in FBI files scandal

White House aide responsible for improperly obtaining FBI background files on some prominent Republi-cans has resigned, the first casualty of what is threatening to become a serious political scandal for President Bill Clin-

Mr Craig Livingstone, head of the White House personnel security office, yesterday denied that he or any other White House official had been involved in any kind of "smear campaign" against Republicans who served in previous administrations. "It's just not true," he told a congressional committee investigating the FBI files affair. He said the files - which are now believed to total over 700 - had been requested from the FBI due to an entirely innocent mistake". Mr Livingstone's resignation is likely to be greeted with relief by the White House, which has been trying to limit the affair's political damage.

Tha files were procured in 1993 and 1994 during a routine updating of a list of persons entitled to access to the White House, Mr Livingstone said, adding the request was based on an outdated list provided by the Secret Service. Names of some prominent members of Republican administrations appeared on it, including Mr Brent Scowcroft, national security adviser to President George Bush, and the former president's press secretary, Mr

on this explanation, pointing out that even the most junior White House official ought to bave recognised auch well-known names and realise they were no longer eligible for White House access. There would thus have been no legitimate reason to procure theh

Republicans have cast doubt

President Clinton's former White House counsel, Mr Bernard Nussbaum, admitted that procuring the files from the FBI amounted to "a serious breach of privacy", and said he took responsibility for the error although he did not know of the request. "Wa made a bad mistake here. It was an innocent mistake I believe, but it was a bad mistake."

But he added: "The very idea of obtaining FBI files for the purpose of digging up dirt on political opponents - the very thought of creating an enemies list and using secret and pri-vate government information against those individuals - is

That is exactly the allegation now being levellad at the White House by Republicans, who have pointed ont that, unlike the Whitewater affair which pertains to distant events from the 1980s, these improprieties were committed

The committee is expected to bear later from an Army staffer who says be gathered some 300 files for the White House, bringing the total of files requested to over 700.

Sharp boost in US durable orders

By Michael Prowse in Washington

New orders for US durable goods rose sharply last month, reflecting a surge in demand for commercial aircraft, the Commerce Department said

Orders rose by 3.3 per cent last month and by 7.7 per cent in the year to May. The data snrprised Wall Street economists, who had projected an increase of about 1.2 per

However, analysts played down the significance of the increase because the main source of strength was a doubling in orders for aircraft – a highly volatile

Excluding transport, orders rose 0.7 per cent, roughly in line with expectations Economists said that orders for civilian capital goods excluding aircraft - widely

seen as a proxy for business investment demand - were flat last month, having declined in previous months. The figures were released as the US Federal Reserve prepared for a policy meeting

on interest rates next week. Many economists expect the Fed to raise sbort-term interest rates this summer in response to evidence of above trend economic growth. But the timing of any increase remains uncertain, with some analysts warning that an increase as soon as next week is unlikely,

US Supreme Court overturns limits on Congress election expenditure

Court frees party poll spending

The US Snpreme Court yesterday ruled that political parties need not abide by federal election spending limits in offering financial support to congressional candidates.

The 7-2 judgment, handed down one day after the Senate had effectively killed a campaign finance reform bill, could have an impact on this year's elections for the legislature and could, in theory, be applied to the race for the White House, in which candidates receive about \$65m each in direct federal funding, sup-plemented by approximately \$10m in party money. The case in front of the court contest in Colorado won by then Democratic Congressman Tim Wirth, who is now under-secretary of state for global

Although it had chosen no

Senate candidate of its own at the time, the Colorado Republican party spent \$15,000 on broadcast commercials attacking Mr Wirth's record. The Federal Election Commission and an appeals court found this violated the 1971 campaign spending act.
The Supreme Court, however, overruled these judg-

embattled governors, three of

constitutional rights to free speech of the Colorado Republican party had been ahridged. It did not state that political parties have a constitutional right to spend as much they wish on congressional candidates but, at the very least, it appears to have driven a wedge

into the existing law. The 1971 law generally limits contributions by state and national parties to Senate races to \$20,000 or two cents for each citizen of voting age, whichever is the greater. This may be a small bucket in the ocean of what a candidate may actually spend, for which the

independently wealthy former Republican Congressman Michael Huffington.

Both the Democratic and Republican national parties had petitioned the court to remove spending limits. But lawyers for the Clinton administration had argued that the federal ceilings helped prevent corruption, or the appearance of corruption.

California exports

In another keenly anticipated ruling, the court ordered, hy a 7-1 majority, the all-male Virginia military institute, a state-supported college, to admit women. It found that en's college did not constitute equal education.

This judgment also applies to the Citadel, another old mililina. Two years ago Ms Shannon Faulkner became the first female cadet after a court had ordered her admission but she dropped out of school after

only a couple of weeks. This ruling, considered significant for women's rights, could become a political issue Republican candidates in the South Carolina primary came ont in support of the Citadel's

Protests spoil Zedillo's tour of southern state

By Leslie Crawford In Mexico City

Anti-government protesters blocked highways and oil wells during a visit by President Ernesto Zedillo to the striferidden state of Tabasco in south-eastern Mexico, where the governor, a member of the ruling Institutional Revolutionary Party (PRI), stands accused of having spent vast sums to secure his election and of alleged ties to money launder-

The demonstrations on Tuesday were led by leaders of the opposition Revolutionary Democratic Party (PRD), who have pursued a dogged, year-long campaign to impeach Mr Roberto Madrazo, the Tabasco

was an awkward visit for troversial Tabasco governor Mr Zedillo, and not only since the scandal over Mr Mad because the road blocks and razo's \$73m election war-chest punch-ups forced him to tour the oil-rich state by helicopter. broke out last year. Mr Zedillo has been under After a year-long investigapressure from his own party to come to the defence of his tion, Mexico's top law-enforce-

whom have resigned in the past 18 months as a result of human rights violations, embezzlement and incompetence. Mr Zedillo's visit to Tabasco, in which he pledged more than \$1bn of investment for the state, was therefore widely interpreted as show of

support for Mr Madrazo. "I am satisfied with the effort, commitment and achievements of the govern-ment led by Roberto Madrazo," operations were uncovered at Mr Zedillo said, in his first

rise 17% to \$26bn

The reviving Mexican economy

and strong demand for alectronics from Canada helped expand Californian exports 17 ment agency earlier this month charged several governper cent to almost \$26bn in the first quarter of this year. Economic recovery and the strength of the currency in ment officials in Tabasco with perjury for concealing massive election overspending during Japan, traditionally the state's the state governorship race in biggest customer, showed through in a 38 per cent sales

The Attorney-General's Office also established that boost to \$4.7bn, according to the Trade and Commerce part of Mr Madrazo's campaign Agency in Sacramento. Shipments worth \$2bn to funds had been donated by Mr Carlos Cabal Peniche, a Mexico, following a decline of Tabasco banker suspected of almost 4 per cent in the comparable part of last year, showed money laundering who fled the the biggest quarterly gain in more than two years. Ms Julie Meier Wright, trade country after fraudulent

secretary, said the surge in dealings with California's nearest foreign neighbours demonstrated the benefits of the North American Free Trade

The date also showed the

impact of Asian economic

growth on the state's fortunes, with Singapore increasing its purchases of California-origin goods and services 48 per cent to \$1.6bn in the review period. Growth in dealings with Europe was sluggish because of "European efforts to tame their domestic economies in preparation for economic and monetary union". Exports to Germany slipped almost 3 per cent, though the UK went

against the EU trend with

imports worth \$1.2bn, up 13 per

Radicals stalk power via Buenos Aires

David Pilling on a city election with national fallout

n Sunday, for the first behind those of the US. time in the city's 400- Such wealthy voters year history, Buenos Aires will elect a mayor. The non-elected incumbent, Mr Jorge Dominguez, is a Peronist. But middle-class Buenos Aires, never comfortable with Peronism's essentially working. Mr Menem's neo-liberal policlass roots, is likely to change

Polls show Mr Dominguez, now the Peronist candidate, trailing in third position, on about 18 per cent. Mr Norberto La Porta, a socialist represent-ing the centre-left Frepaso alli-ance, is in second place with 24

Far ahead, on 37, is Mr Fernando de la Rua of the Radicals. Victory for him on Sunday would be a God-send to the country's oldest political party, humiliatingly trounced into third place by President Carlos Menem's Peronists in a general election last year. Success on polling day, says Mr De la Rua, would "consolidate an alternative" enabling the Radicals to showcase "an exemplary gov-ernment as a counterpoint to the frivolity and corruption" of the national administration.

A Radical win would undoubtedly be a setback for Mr Menem, but its national significance should not be exaggerated. The 3m citizens of the federal capital - the centre of the sprawling conurbation of Greater Buenos Aires, which has 13m inhabitants - are hardly typical Argentine vot-

Per capits income is \$24,300, according to official statistics, three times the national average. The city's economy, at \$75bn, is bigger than the national economy of Chile. Per capita wealth is distorted by heavily skewed income distribution and by an overvalued peso, but nevertheless makes the average Buenos Aires resident nominally richer than

Such wealthy voters have always been antagonistic to Peronism, which has historically shronded itself in the rhetoric, and sometimes the practice, of fairer income distribution and workers' rights.

cies bave, in broad terms, favoured the poor and the rich, but battered some sections of the middle classes, solidifying support for opposition parties

in the capital Many middle-class Argen-tines lost out in the sweeping privatisations begun by the Menem administration in the

early 1990s. When the state oil company YPF was privatised, 50,000 jobs were axed, many of them well-paid middle-management positions, some of them handed down from father to son and always carrying generous pen-sions. Former state workers, often based in Buenos Aires, have bad to taka lower-paid jobs, or have swelled the ranks

Much of the Peronist government's national popularity is hinged on its partial success in restoring living standards by killing hyperinflation. But this does not carry as much weight with Buenos Aires's middle classes, many of whom had become adept at profiting from high inflation. Add to this the perception that health care, the arts and higher education have all suffered badly under Menemism, and one is left with what Mr La Porta terms "the

growing panperisation of tha Not that all concerns are the same in a city roughly divided between the rich north and the poorer south. North of Rivadavia street, which cuts a swathe through the centre, is a land of fur coats, pedigree dogs and manicured gardens. Go south and the pavements are cracked British citlzens and not far and litter-strewn, poverty more

The candidates are going through the campaigning motions, addressing sncb municipal issues as bospital repairs, traffic congestion and town planning. But most analysts say the expected Radical victory will be predicated on the desire of Buenos Aires resi-dents to send a message of dis-content to the national govern-

Corruption is at such levels. says Mr La Porta, that it costs twice as much to build 100 metres of Buenos Aires subway as in Europe. The \$3bn city budget is "a pretty picture that lacks all seriousness", he says. "There is absolutely no

The Radical party's national fortunes sank to historic lows when in 1993 former Radical President Raul Alfonsin signed a pact with the Peronists facilitating Mr Menem's re-election.
Victory, say the Radicals, could, provide the platform from which to launch a presi-

dential bid in 1999. A Radical win, however, would be tempered by the likely outcome of parallel elections for a 60-member commission that will write the constitntion of the newly autonomous city. That, polls

say, will be won by Frepaso More important still, the Radicals, some of whose principal figures are involved in serious corruption scandals, will have to polish their image to make credible their claim of representing clean government. The Radical party has been out of office so long that some observers expect this weekend's election to be followed by an ugiy scramble for

jobs and influence. In the machiavellian world of Argentine politics, Mr Menem might be quite content to sit back and watch the 6 People say that we live in the past. Well yes, we have been providing for the *future* by managing investments for 200 years. ??

> Many things have been said about us. No doubt we asked for it. We've been doing the same job for 200 years: managing investments. And this longstanding experience has always been our pledge for the future. Can this reasonably be held against us?











DARIER HENTSCH & Cie

LOMBARD ODIER & Cie - MIRABAUD & Cie -

Chirac gives G7 a French flavour

By David Buchan in Paris

President Jacques Chirac has given the Group of Seven summit which opens in Lyons tonight a distinctly French flavour, in his choice of "globali-sation" of the world economy as the main menu for the lead ers' two days of talks.

According to his apokeswoman, Mr Chirac hopes that "making globalisation benefit everyona" will be the guiding theme of the aummit's eco nomic discussions, with his fellow leaders underlining the risks as well as the rewards flowing from closer integration of the world economy.

As the world's fourth largest exporter, France has no desire, let alone ability, to reverse or shield itself from globalisation, French officials insist. The point is reinforced by the declsion to hold the summit in Lyons, one of France's most international cities. Its mayor is now Mr Raymond Barre, the former prima minster who in the 1993-94 French battle over Gatt was a lonely voice for the world trade accord.

Others less reconciled to globalisation will be out on the streets of Lyons over the next two days. After a 40,000-strong warm up rally there on Tuesday by French unions, e series of counter-G7 protests is planned by aid, environmental, human rights and leftwing organisations calling themselves "Other Voices of the Planet", "Let'e Take Back The Initiative" and "Resistance to Globalisation".

For his part, Mr Chirac will want to use his G7 stage to show his public the problem goes far wider than France. While globalisation may bring rewards by spreading technology and increasing trade and overall economic growth, he will emphasise the burden that adaptation to increased global competition places on people and countries.

French officiels point out that inside the G7 countries, 23m people are without jobs, 3m of them in France, while outside, some 40 developing countries have become increasingly marginalised.

In the run-up to Lyons France convened a rather inconclusiva G7 jobs summit in Lille in early April, which steered a mid-course between Anglo-Saxon labour flexibility and continantal European rigidity by calling in general tarms for labour market reforms. French officials admit that, apart from some US support, there is no G7 consensus behind the French idea of involving the new World Trade Organisation in negotiating e core of minimum labour stan-

By contrast, thay believe French views on the need for financial and currency stabil-ity and for more devalopment aid efforts are gaining support. They are pleased a report prepared for the G7 by financa ministers endorses the usefulness of intelligent intervention by central banks on the currency markets, and hope Lyons will bless the recent rise of the US dollar.

Though G7 summits were a French Invention, by Mr Volery Giscard d'Estaing in 1975, with Mr Barre as his "sherpa", France has alweys stressed it should not behave lika e "directorate", unheeding of other countries yiews, To garner their views. Mr Chirac has sent emissarias to 20 non-G7 countries. The result has been to reinforce his determination to make ald and debt o big topic of the Saturday session in Lyons with heads of the international financial institu-

Another affort at openness will take the form of e glant screen in Lyons' Place Beliecour with television coverage of the summit.

Bombing raises doubts about stability of world's biggest oil producer and safety of western troops stationed there

An explosive mix of young Saudi anger

Roula Khalaf traces the roots of opposition likely to have been behind Tuesday's bombing

τ Saad al Fagih, a leader of the London-based Saudi Islamist opposition, believes the perpe-trators of tha bombing of a complex in Saudi Arabia on Tuesday were young Islamic extremists who will attempt to strike again, Next time, he said, the target could be the

Saudi royal family. For people like Mr al-Fagih, who call for stricter adherence to Islam in Islam's most conservative land and accuse the royal family of corruption, the loose network of youth who believe violence alone can achieve their objectives, can only be silenced by allowing those whose politics inspired them a voice in Saudi society. "All the people who can control those agitated people are in prison," he said.

When e car bomh destroyed a US-staffed Seudi National Guard communications centre in Riyadh last November, the Saudis quickly pointed the finger at outside powers, Then, much to everyone's surprise, in April they produced four suspects who confessed the bombing was a home-grown conspiracy. The four were beheaded in May, provoking threats of reprisal in anonymous phone calls to the US embassy in

The edmission that Saudi nationals had threatened the security of the state led analysts to suggest that the seemingly staged managed confeseions on national television were at least partly genuine. It also focused attention on a

growing Islamist opposition which, although not strong enough to pose a threat to the survival of the Sandi regime, can present a challenge to e country whose security apparatus and repression of opposition groups had long shielded it from the threat Islamists pose in other Middle Eastern

In many ways, Saudi Arabia finds itself besieged by a mon-ster it helped to create. The Saudi regima was once the main backer of Islamic opposition groups in Egypt and elsewhom it believed could act as buffers against the spread of communist ideology.

It helped finance and encour-aged 15,000 volunteers to fight alongside the Mujahideen in the western-backed holy war against be Soviet invaders of Afghanistan, Three of the four men Saudi Arabia says were responsible for the November bombings confessed to being "Afghans", as the Arab volun-

Although the kingdom was beset by riots in the 1980s in the mainly Shia eastern province, the unrest was seen as inspired by Iran, at the time ectively sought to export its Islamic revolution. Opposition in Saudi Arabia

comes from two diametrically opposed poles: educated and liberal-minded middle class liberals who do not challenge the legitimacy of the royal family but would like to see more western-style democratio reforms, and the Islamists who call for political reform but of the kind that would promote an even more puritanical ver-sion of Islam, eradicate royal family corruption and rid Saudi Arabia of western influence and forces.

Today it is the Islamist opposition that is the most potent and the one that has attempted to organise itself into a semicoherent movement.

The turning point for this opposition, led by so-called "neo-Wahhabis", younger clerics who see the Council of Ulemas, the Saudi religious establishment lishment, as nothing more than a rubber stamp for royal family shenanigans, was the Gulf war of 1990-91. The Al Sauds at that time asked for US help to counter a potential lrad threat and allowed more than 500,000 American soldiers to use Saudi Arabia as a base to liberate Kuwait.

The landing of US troops was seen by the country's conserva-tives as a violation of sovereignty. Echoing a theory some Saudis and Arabs subscribed to at the time. Mr Sefr al Hawali, a Sheikh from Qassim, the heartland of the Nejd which is





SAUDI

ARABIA

US: An estimated 30,000 personnel on a rotating

technicians as part of the Al Sewari government-tonodemisation and expension programme. Also a Southern Watch

2,000 teeth-

nicians on behalf of the

the government-to-

Southern Watch.

Al Yamamah programma,

uso about 200 air force

personnel supporting the

crats signed a letter to the king copies accusing the US of harwhich, detailing 12 demands, including a resbuilling of the bouring plans to control Gulf religious establishment and the forbidding foreign troops After the war, a group of 400

fatou - or religious edicts saying the demands were counter to the teachings of. In 1992, another 44-page doc-

on Saudi soil. The government

went to its own clerics who were all too happy to issue

ument was fired off to the king demanding a full programme of reform based on the 12 points. The official clergy again ruled the memorandum a breach of Islam. Undaunted, six of the signa-

tories then formed the Commit-tee for the Defence of Legiti-mate Rights in 1993, using a human-rights shield to set up a political organisation which, aims to turn Saudi Arabia into an even more inward-looking and puritanical state. When tha committee's rhatoric turned to accusations of Saudi royal family corruption, some CDLR members and organisers

were arrested.

Until then, little was known or said of the islamist opposition, given the kingdom's tight control of information and the lack of access allowed foreign journaliste. This, however, quickly changed when two peo-ple behind the CDLR made their way to London in 1963.

Mr al-Fagih was one. The other was Mr Mohammed al Massaari, a former physics pro-tessor at al Saud University whose presence in Britain threatened British commercial interests in Saudi Arabia and soured diplomatic relations with the kingdom.

The two re-established the CDLR in a North London

apartment from which they bombarded the Kingdom with faxes detailing lurid tales of royal family corruption and turned opposition to the royal family into an international media event.
The royal family's irritation

was such last year that it put pressure on Britain to deport him. British government attempts to send Mr al Mas-saeri off to the Carlbbean island of Dominica, however, failed and he has been allowed to ramain in Britain fer another three years. This week's blast in Dhahran.

and the latter is believed to have taken with him much of

the group's financing.
White thesa divisions brought to light the splintered nature, and thus relative weaknasa, of the Saudi Islamist opposition, the attack near the Dhahran air base - if confirmed to be the work of an extremist Islamic group - will raise concerns ebout the strengthening of the more vioient opposition et the expense

will again focus attention on Mr al Massaari whose fortunes

were thought to have dimmed

when he and Mr al Fagih split

of the politicians. The redical opposition is thought by diplomata to be made up of loose groups, each following a specific cleric. Dip-lomats say explosives can easily be smuggled into the king-dom. Those used in the November bomb ettack were

smuggled from Yemen.
The four who confessed to the November bombings said they had been inspired by Mr al Massaari as well as by Mr Osama Bin Laden, a member of one of Saudi Arabia'a wealthiest merchant familles who is suspected of baing a moin financiar of radicol Islamic groups in Egypt. Mr Bln Laden, who has reportedly been stripped of his Saudi nationality, has lived in Sudan for the last five years, although recent reports suggest Suda-nese authorities heve asked

him to leave. Mr Fagih says that the way to stem any further attacks is to release the clerics whose teachings the radical Islamists are implementing by force in order to move the battle on to the political front.

The fear is that, however essential, more forceful clampdown inside the kingdom will only fuel further attacks. More than 50 per cent of the Saudi population is aged under 21. and with the decline in oil prices and in incomes, some have very little to lose.

And, as many Middle Eastern countries can testify, it takes good organisation but not a large number of extremists to mount bomb attacks.

55.74

Foreigners braced for further terror attacks

By Robin Allen in London

The bombing of the military parracks in Dhahran on Tuesday night has raised fears of further ettacks against US and other foreign military targets in Saudi Arabia,

Security officials are also likely to be worried ebout the size of the blast and the andacity ahown by the bombers, who struck at one of the most secure facilities in the king-After a bomb in Rivarh last

November, western diplomats and Sandi officials said the sariousness of the terrorist threat would be shown by any further attacks on foreign military sites.

The Novamber attack was aimed at a lightly guarded training and communications facility located in an easily accassible residential neighbourhood of Riyadh.

But Tuesday's incident occurred at the heavily guarded King Abdul-Aziz airbase in Khobar, e sprawling military complex that is home to many of the allied aircraft. which enforce the no-fly zone over southern Iraq, The conurbation of Al-Kho-

bar, Dhahran and Dammam also contains the beadquarters of Saudi Aramco, the state petroleum company, which is the world's largest oil exporter and which employs large num-bers of American and other expatriate workers.

Americans in the area were recently warned to be on their guard. But residents in the eastern province say scores of US military personnel in civilian dress were to be seen every day wandering through the

Security at the base, however, was reported to be tight. This was particularly evident et the entrance to the complex, which houses thousands of Saudis as well as the US, British and French contingents attached to Southern Watch. the serial supervision of Iraq south of the 32nd parallel. The Al-Khobar Tower that was the target of the bombers

was one of about 50 eight-sto-rey residential blocks surrounded by a wire perimeter fence several miles long. "It is impossible to secure the full length of a perimeter fence this long," eenior diplomats in Dhahran said yesterday

The lorry carrying the explo-sives could not get through the main entrance, it stopped et an unsecured point outside the perimeter fence away from the entrance but only some 30-50 yards from the Al-Khobar Tow-

ers.
The US "has no intention of reducing its presence in Saudi Arabia". according to Mr Mike

McCurry, the White House press secretary, yesterday. Western diplemats also

RIVADH

Shoura, the consultative coun-

cil created two years ago by King Fabd. He taped e lecture

during the Gulf war which was

reported considerable Saudi support for the US presence.
"The Sandis are saying the US should not leave. On the contrary the Saudi government should crack down harder on all forms of dissent," aenior western diplomats quoted local Saudis as saying. However, not all Saudis

share this view. One employee of a British company was quoted as saying: "What are Americans doing in this coun-try? These incidents will go on so long as there are Americans on Saudi soil."

Americans make up by far the largest contingent of for-eign military personnel, including British and French, who either advise or train Sendi armed forces. Unofficial sources in Riyadh

say there are more than 30,000

US troops,
Since the Gulf war the US
has had stationed several squadrons of F-15s and F-16s with inflight refuelling aircraft at the Dhahran airbase. These provide cover for the halfdozen or so British Tornado fighter aircraft which help monitor conthern Iraq to enforce a UN resolution banning Iraq from using fixed-wing aircraft in the southern

Israel plans \$1.5bn budget cuts

By Julian Ozanne in Jerusalem

Isreel's new government yesterday began preparing for expenditure cuts in an effort to curb rising budget and balance of payments deficits and intensify the fight against inflation. Although details have yet to

be finalised, officials said expenditure cuts of Shk5bn (\$1.53bn) in the next 18 months were being considered to put the economy back on track. revitalise tha flagging stock market and calm the concerns of local and foreign investors.

Mr Benjamin Netanyahu, the prime minister, has pledged to carry out far-reaching structural reforms of the economy. He held e second round of talks in e week with Mr Dan Meridor, finance minister, and Mr Jacob Frenkel, central bank governor. The Treasury said next Sunday's cabinet meeting would be devoted to reviewing the economy and the performance of the budget in 1995

Mr Meridor said the government would have to make a "considerable cut in spending" in order to curb infletion which has reached 15 per cent a year, up from 8 per cent last year and wall ahead of the government's 1996 target of 8-10 per cent. He elso said he intended to create a team that would convene every month to increasa supervision and ensure that the budgetary tar-

gets were met. A Treasury statement quoted the new finance minister as saying: "My intention is to force all of us to meet the budget targets - spending, revenue and deficit - and not to allow a significent devietion from

Israel has a domestic budget deficit reduction law requiring an annual cut in the deficit as a percentage of gross demestic product. But last year, in the run-up to alections, the government overshot its deficit target of Shkøbn, or 2.75 per cent of GDP, ending the year with a deficit about 3.5 per cent of GDP. Figures from the first four months suggest this year's domestic deficit target of Shk7.6bu, ar 2.5 per cent of GDP, is wall off-course and

heading for 4 per cent of GDP. Last year, the current account deficit grew from \$2.5bn in 1994 to \$4.1bn, or 4.7 per cent of GDP, and figures for the first four months suggest it will widen further this year to \$50n.

The co-ordinated government moves on the economy folcentral bank's key landing rate earlier this week to 17 per cent. its highest level for almost two years, amid continuing signs of inflationary pressures.
For the past 18 months, Mr

Frenkel has insisted the battle against inflation must involve both tighter monetary and fiscal policy. Although the details have yet to be finalised, both Mr Frenkel and Mr Meridor have indicated they favour an immediate cut in the 1996 budget, of np to Shk2hn, and a deeper cut of Shk3hn from the 1997 budget. Such cuts would allow falls in both interest rates and the exchange rate and would revive the stock market.

· Arab guerrilles killed three Israeli soldiers on patrol in the occupied West Bank near the border with Jordan yesterday.

WOULD YOU RATHER DRIVE THE LUXURY CAR ON THE LEFT



On the one hand, the 7 Series is a performance machine perfected on a racetrack at the Nürburgring, on a circuit so demanding it is no longer used by Formula One racing cars.

On the other, it is a hushed environment that sliently whisks you to your destination (as it cossets you with everything from a heated steering wheel to a 330W CD system offering you the acoustic profile of a cathedral or a jazz club).

in short, it is different from every luxury car you may have set in because it regards the driver as a functioning component of the car. A level of technology unprecedent on four wheels makes all this possible.

This technology extends from a computer that navigate you around an unknown town to an automatic gearbox that actually adapts to the way you drive-

ang Political pall over Vietnam investment Brussels warms

Jeremy Grant on the problems tarnishing the image of a country once touted as an Asian business hotspot

There was a time when Vietnamese television's ovening news would regularly feature foreign businaesmen and local officials awapping smiles and handshakes at joint venture signing

But those days are gone. In the run-up to a landmark congrees of the Communist party, which starts tomorrow, viewers have been treated instead to speeches delivered by party bureaucrats undar plaster busts of Ho Chi Minh to rows of stony-faced officials.

The foreign businessmon have also lost their smiles. A catalogue of business problems has tarnished the image of e country once touted a southeast Asian investment hot

"We have consistently advised our people not to conalder investing here unless they are happy with payback starting ofter about six years. Not before," said one western diplomat. "It is not what peo-ple think."

. The main worries are a con-stantly shifting legal framework, excessive and costly bureaucratic procedures, corruption, financing difficulties and an apparent lack of understanding by Vietnamese authorities and businessmen of the commercial norms that apply in any business, particularly abiding by contracts, It was these problems that

led the Hong Kong-based Politi-cal & Economic Rick Consul-tancy to conclude in March that Vietnem was the most risky country in Asia for foreign investors. It also said that it was the most stressful for

The role of foreign invest-ment in the country's develop-ment is but one theme in discussions during the congress, which ends on Monday, For-eign businesses are looking to Hanoi to make good on its freinvestment environment hat, year over the same period last business plans and the with the party divarted by year, according to the ministry appointment of personnel - are leadership questions, little of for planning and investment. immediate relevance to foreign investors is likely to emerge.

Indeed, the current ruling troiks of Mr Do Muoi, the general secretary, Mr Le Duc Anh, president, and Mr Vo Van Kiet, premier, appears to have been voted a further term of office. if their tenures are officially re-confirmed on Monday, this indicates business as usual but is likely to focus foreign investors' minds even further on the country's reform process.

There is one way of translating raform," said one European diplomat. "Do you allow foreigners to make money or not?" That's the key issue. They still haven't accepted the rules of the game they decided to play five years ago." Official figures have already started to reflect the darkening

mood. Licensed foreign invest-

ment slumped by 48 per cent in

Only about a quarter of the total investment pledged -

about \$20bn - is et work in Vietnam, eccording to the World Bank and local officials, Some companies have already voted with their feet and many more are scaling back plans,

Chrysler, the US carmaker, is unlikely to go shead with all aspects of its planned \$192m assembly plant near Ho Chi Minh City. South Korea's Daswoo, the

largest foreign investor in Vietnam with \$600m in approved projects, went public this month with its complaints. Its Vietnam general manager spoke of "many problems. many problems".

One of them has been with the structure of joint ventures. Under Vietnamese law, decisions by a joint venture's management - such as budget.

General -

industry \$8,400m

Finance and banking \$269th

Of and gas \$1,200m _

Agriculture, forestry and fisheries \$386m

This gives the minarity Vietnamese partner veto powar even if the foreign side has management control under the contract.

The problem is made worse by capricious decision-making by local authorities, often acting in contravention of laws Mr Do Duc Dinh, a govern-

ment economist, acknowledges the problems but indicates that an immediate solution is unre-

The government understands this (problem) but ... now the provinces have money, and money means power in certain cases.

Meanwhile, investors draw little comfort from the enti-foreign rhetoric that has appeared receotly in the Vietnamese press. In one case, at the end of last month. President Anh warned in The People's Army with foreign investors could threaten the country's independence, "damaging our country's long term and hasic

To some extent, these suspiclons are understandahla. There have been many cases where foreign companies, particularly Asian ones, have used joint ventures as dumping grounds for second-hand tech-

And there is also temptation to play down the role of foreign ous commitments of cheaper Overseas Development Assistance, or aid, continue to flow

But for Mr Dinh, there will be little change in Vietnam's approach to forsign investment: "For the general direction of policy, I'm sure It's moving in a positive direction. There is no way back. But in the implementation, there may be some changes, a slowdown."

to Japanese chip proposal

London and Michiyo

The European Commission has welcomed a Japanese proposal that governments of the main semiconductor-producing countries meet regularly to discuss trade liberalisation and policy ssues affecting the industry. Jepeo hopes such an arrangement would make it

easier to deflect political pressure from the US, which is demanding that the two countries renew e controversial ment which expires at the end of next month.

However, Jepan's initiative also marks a partial retrest from its earlier insistence on the principle that governments should have no direct involvement in the industry's affairs. The proposal follows Japan's

recent call for a World Semiconductor Council, in which leading producars would exchange market data and co-operate on technical matters such as standards and environ mental issues

The European Commission als, because it views them as another opportunity to push its long-standing demand that US-Japan arrangements on semi-conductor trade be widened to include the EU. However. Weshington has responded coolly. Though it has welcomed Japan's readiness to concede a role for governments in the semiconductor industry. the US says the plan does not go far enough because it does not cover foreign producers' access to the Japanese market. The US also refuses to include Brussels in discussions with Japan until the EU commits itself to abolishing its semicon-

ductor tariffs, the highest in the industrialised world. Japan objects that its fiveyear-old agreement with the US amounts to managed trada, because it sets numerical targets for foreign chip markers' share of the Japanese market. The EU has condemned tha

agraement, concluded under

threat of US trade sanctions, as

Washington says it is ready to accept a new agreement without numerical targets, though it wants the two gov-ernments to continue to monitor sales and market share data. Tokyo says the US still wants guarantees of market share and other provisions which would violote world trade rules.

Japan proposed o "Global governmental forum on the semiconductor industry" in talks in Brussels lest week. more thoroughly, but our positions are close," a senior Japa-nese official said.

Jepan is considering complaining to the World Trade Organisation about Kodak's domination of the US photographic film market, following the recent US complaint in the WTO that Rodak faced anti-competitive trada barriers in Japanwrites

Guy de Jonquière A Japanese official said said Fuji, Japan's biggest film company, had said that Rodak had sharply increased its US market share since it was released from an enti-trust consent decree last year.

Tha two sides have agreed in principle that the forum should aim to include all the main chip-making countries, comply fully with World Trade Organisation rules and eschew government intervention in semi conductor markets.

Japan has suggested that the forum hold annual talks on iseues including removing trade and investment barriers in the industry, taxation, regulation, scientific research and promotion of the information

society. US President Bill Clinton has written to Mr Ryutaro Hashimoto, Japan's prime minister, calling for tangibla progress on semiconductors, and in bilat. eral disputes over insurance and civil aviation, before tomorrow's G7 summit in

Third mobile phone network is launched

By Jeremy Grant in Henoi

Vietnam Posts & Telacommunications (VNPT), tha state telecoms monopoly, yesterday launched the country's third mobile phone network. which it said was another step in deregulating the country's fast growing telecoms sector.

Industry axparts said that the system, wholly owned by VNPT, seemed the first serious attempt by Vietnam to try to build the country's embryonic telecoms infrastructure without foreign involvement.

VinaPhone, as the new system is called, will be available in 18 out of Vietnam's 59 provinces once VNPT installs switching systems and basa stations bought from Siemens of Germany and Motorola of tha US last year under a

Demand for mobile phones is soaring in Vietnam. Industry estimates show there were 35,000 Vietnamese and foreign users as of this month, against only 200 in 1993, when the ser-

vice was introduced. Of the two existing systems, one in Ho Chi Minh City is operated by Singapore Telecom and the other, MobiFone, available since July last year, is run by a VNPT unit, Vietnam Mobile Services (VMS), under a \$345m revenue-sharing deal

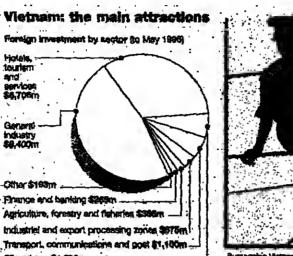
with Comvik, part-owned by Stockholm-listed Kinnevik. Industry experts questioned whether VNPT had the experience to operate a third system, pointing out it would be competing head on with MobiFone, "They [VNPT] certainly lack the planning ability and we don't even know if thay haya a billing system." said

"I believe the bet is going to be on customer services, val-ue-added services and the cost of entry," Comvik Interna-tional Viatnam's managing director, Mr Magnus MandersMr Mai Liem Truc, VNPT's general director, said the new system was part of a policy to increase competition in telecoms, "We want to have some diversity to secure our aer-

Four contracts with foreign companies, worth a total \$1.4bn, to install land lines in Hanot and Ho Chi Minh City would be signed soon, Mr Truc

The contracts, under negotiation between VNPT and Telstra of Australia, NTT International of Japan, Cable & Wireless of the UK and France Telecom, have stalled because of differences over traffic projections and revenue sharing. Mr Truc said there would be furthar delay due to the planned privatisation of a third of Telstra and changes to top management et France Télécom in Peris. "But I don't think it will be a long delay.

We'll have the contracts soon,'



HEINEKEN WINS LICENCE FOR SECOND BREWERY

Vietnam has granted Heineken a licence to open a second brewery in the country. The Dutch group said yesterday that it and local partners were making a \$190m investment in "a key growth market which is expected to continue to grow in the years to come", writes Gordon Cramb in Amsterdam.

Its Singapore-listed Asia Pacific Breweries affiliate will own 55 per cent of Hatay Brewery, located just south of the capital Hanol. The local Hatay Food Company will hold 38.5 per

cent, while the remainder is to be owned by Vietnam Brewery, Heineken's existing joint venture operation in Ho Chi Minh City.

The new facility, producing the Heineken and Tiger brands, is due to be completed in early 1999 with an annual capacity of 600,000 heotolitres. While this will be only a third of the size of the existing brewery, it represents a akthrough in the north of the country where investment approvals have often been more difficult to obtain,

Input of DM450m will mean initial assembly of 72,000 units a year

GM agrees Polish car plant

By Kevin Done, East Europe Correspondent

General Motors, the world's largest vahicle maker, has reached final agreement with the Polish government over its

plan to hulld a car assembly

plant at Gliwice, near Katowice, southern Poland. In an exchange of letters, tha two sides have agreed terms for the project, in which GM will invest at lass DM450m (\$296m) in a plant initially to produce 72,000 cars a year.

Mr David Herman, chairman and managing director of Adam Opel, GM's biggest European subsidiary, said building work was expected to start by the end of July and production begin at the end of 1898,

The Gliwice facility would be an integrated car plant with metal stamping, body welding, paintshop and final assembly. The share of local content would reach 60 per cent after 2-9 years. The kay to finalising the deal

elon to establish a special enterprise zone to include the proposed facility. The GM investment has been welcomed by the government

was a Polish government deci-

as a source of new jobs in e region restructuring from the old mining and heavy industrial sectors.

By locating the plant inside the Gliwice zone, GM will pay no tax on profits for the first 10

veers and will enjoy a 50 per cent reduction in taxes on profits for a further 10 years, Corporate profit tax is 40 per cent in Poland.

The US vahicle manufacturer will also ha able to import machinery and equipment for the plant duty-free and will be ehla to import components duty-free from the European The 70-hectare site will be

purchased et market price, hut the local authorities will supply assistance for training and will provide the nacessary infrastructure including road and rail connections.

GM is planning to produce a low-cost family car based on the current Opel/Vauxhall Astra, for sale mainly in the transition markets of central and eastern Europe.

Between 60 and 70 per cent of output will be sold in Poland, the biggest new car market in central Europe, where new car sales have risen 32.8 per cent in the first five months this year.

GM had previously told the Polish government it wes examining the possible expansion of the plant in a second phase with the investment of a further DM250m-DM350m to raise capacity to 150,000 cars e year. It would add production of a second range of smaller cars still under development and for sala throughout

Korea spurns US tariff pleas

South Korea is not expected to make any new trade concessions soon because of its growing trade deficit, in spite of pleas yesterday by visiting US and EU officials to spen its car

and telecom markets. Korea has "the most closed sutomobile market in all of the developed world", said Mr Mickay Kantor, the US com-merce secretary, in Seoul, Mr Stefano Micossi, the directorgeneral of the EU a industry directorate, also called for cuts in tariffs on cars and for a reduction of non-tariff barriers, such as easing a complex certi-

Mr Rantor added that the US "stamphly and strongly" sup-ported Kores's hid to join the Organisation for Economic Cooperation and Development this year, but noted that only one of the group's six subcommittees had approved Korea's entry so far. The ORCD still has conterns about such areas as financial liberalisation. direct investment, intellectual property rights protaction, labour rights, and environmental standards.

fication process.

Korean officials responded cautiously to demands for the immediate lowering of trade barriers, "The US and Korea have the same goal as far as market liberalisation is concerned, the only differences

have to do with timing and speed," said Mr Lee Suk-chee, the minister of information and communications.

"This is probably the worst possible time for the US and the EU to demand a market opening because of Korea's widening trada deficit," said Mr Eugane Yun, head of research at Deutsche Morgan Grenfell in Secul, The government predicts that the trade deficit could reach a record

Silbn this year.
Both the US and EU have complained about the limited number of foreign cars sold in

Koraa imported 5,000 vehicles from the US and 4,300 from the EU last year, while it shipped 191,000 cars to the US and 180,000 to the EU. Mr David Muir, head of Inch-

cape Motors in Korea, which sells General Motors cars, pre-dicts that foreign carmakers could gain 7 per cent of the market, as much as they hold in Japan, within five years. The US and the EU are also

seeking an expanded opening of the Korean telecom market, which has been dominated by domestic equipment manufac-turers. The EU yesterday held a new round of talks in Sooul on telecom progprement issues after it filed a complaint with the World Trada Organisation last month on market restric-

Unions urged to play bigger role

Mr Michel Camdaasns, managing director of tha International Monetary Fund, yesterday urged trade unious to make an active contribution towards maximising the benefits of globalisation.

Making the first speech by an IMF head to the interna-tional Confederation of Free frade Unions, Mr Camdessus said trada unions had a key role to play in the growth of the global economy. "The world's common good will be greatly helped by the unions using their strength and their place at the table to help workers adapt and engage employers and governments in dislogue to ensure that those who are unemployed through structural changes are helped to retrain, to find new jobs and to carry their entitlements from job to job," he said. Mr Candessus spoke of the

positive impact of trade liberalisation in front of a union audience seemingly hostile to the development of a more global economy, "Companies that invest in plants in developing countries generate increased damand for parts and inputs from the developed countries where the invest-ment originated," he said, However, Mr Camdessus recognised union fears that a

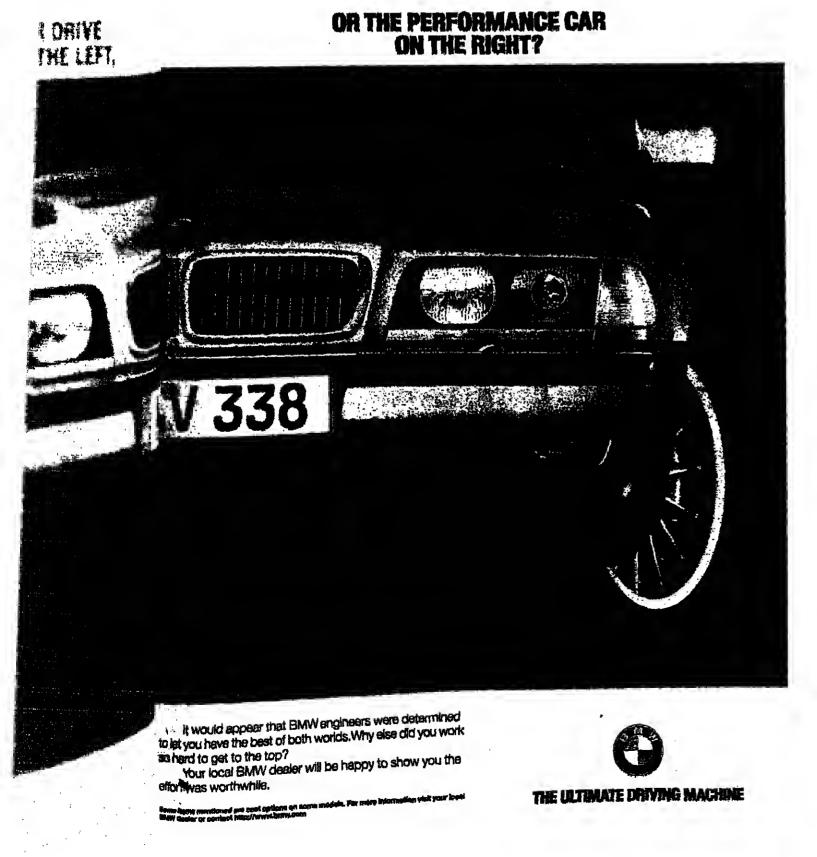
global labour market allowed low-paid workers in developwages of the less skilled work-ers in developed countries. But he said part of the solution lay rates to "sustainshie levels and reducing the range of fluc-tuations which have reduced firms' willingness to invest

and employ more workers". However, the IMF director said "the permanent pressure of strong trade unions" in dialogue with governments and employers internationally was cessary to ensure higher growth and employment.
"Countries need to adapt to

the reality of the market-place," he added.

Mr Camdessus acknowl-edged that the market alone was not sufficient to solva global problams. "Wo also need the hand of justice guaranteed by the state," ba said,
"This sets the framework
under which markets can
work reliably and efficiently,
juckeding the rules governing workers rights,"

Mr Camdessus' views of glo balisation were not shared by Mr Bill Jordan, the ICFTU's general secretary. He said the global market was being driven by "economic warlards, without compassion or conscience" who were creating "a world where greed is a virtue and competition a religion"



By Raiph Ations, Insurance Correspondent

A group representing 2,000 loss-making Lloyd's of London Names yesterday took a deci-sive atep towards ending legal action at the insurance market.

The committee of the Merrett Names' Associatioo voted unanimously to recommend that its members accept Lloyd's recovery plan - as far as it relates to litigation being

pursued by the association.
The recommendation stopped short of an onqualified eodorsement for the plan, called "reconstruction and renewal". It also depends on the final wording of an agreement with Lloyd's heing

But the committee's decision is the first such move by a Lloyd's Names "sction group" since the insurance market last Friday sent individual details of the plan to all 34,000 Names worldwide. Names are individuals whose assets have traditionally aupported the

The move is expected to set a precedent for other meetings by action groups over the next

The committee has left it for individual Merrett Names to

accept or reject the plan by the August 28 deadline. Many were hit by losses from other syndicates, as well as those run by the Merrett ageocies.

However the committee concluded that continuing legal action for losses incurred by Merrett syndicates would not produce a better result than under the recovery plan. If the recommendation is endorsed by Merrett Names at a general meeting on August 1, the asso-

LLOYD'S OF LONDON ciation will drop outstanding litigation once the recovery

plan is implemented. In addition, Mr John Mays, group chairman, yesterday gave his personal endorsement "recoostructloo and renewal" proposals.

Merrett Names lost heavily as a result of US asbestos and pollution-related claims but last year won a court judgment saying they were the victims of negligence. At the time, Mr Mays said the association would seek £300m damages. He refused to say how much Merrett Names would receive under "reconstruction and

Merrett Names Bank shifts towards Swiss model

Radical changes follow international widening of client base

By George Graham,

The 300-year-old Coutts & Co is among the most history-laden of private banks. But the radical restructuring it will announce today places it in the front ranks of a management

revolution sweeping the sector. Tradition is an important ingredient in private banking, both in small matters such as the frock coats still worn by Coutts staff, and in larger matters such as the intensity of service expected by wealthy

But the relatively high returns that can be earned have attracted new competi-tors and forced the traditional private banks to think again. Coutts, a subsidiary of the NatWest group, found it had evolved into a red carpet version of an ordinary retail bank. But a very large proportion

of its profits came from the small number of customers probably no more than 10 per cent of the client base - who came to the bank for a wide range of financial services. Coutts's first answer was to

strengthen its asset management capacity by recruiting investment managers and financial planning specialists. A year ago, however, Mr Herschel Post, the bank's chief executive, decided that it was "not enough just to bring in more specialists".

Working with management consultants Price Waterhouse.

Coutts has now decided to do away with its hierarchical management structure, in which a client would be more likely to deal with a mid-level banker than with a senior executive or an investment Instead, private bankers will

be organised in 30 teams, each headed by a top level executive reporting directly to Mr Post, and each able to provide a full range of financial planning and investment management services to its 75-100 clients.

Coutts is trying to move from the style of a conventional town centre bank to the flatter structure that characterises some of the even more traditional Swiss family partnership private banks -although Mr Post prefers a comparison with Mercury Asset Management, the fund management group.

The bank's customers, too, are evolving. "I think there was an image that Coutts's cli-entele consisted primarily of landed gentry, and we are delighted to have them. But the typical client today is just as likely to be an American or French investment hanker over here on assignment," said

Coutts's next branch will be in Canary Wharf, a hotbed of investment bankers from outside Britain.

As Coutts tries to step up its service to this kind of customer, Mr Post insists that it does not plan to try to weed



A Couti's messenger offers customers a traditional welcome

out less profitable customers who only want a cheque book and an overdraft. For one thing most customers know or are related to other customers. The changes will be expensive, involving an increase in the number of highly trained and highly paid people dealing

To find the money to pay for that, Coutts has looked for savings in its back office, and has found room to cut more than 170 jobs. A review of other sectors is now under way, and could result in a similar level of job cuts next year.

Corporate

governance

global code

Sir Colin Marshall, chairman

of British Airways, yesterday called for the establishment of

proposed

UK NEWS DIGEST

Doubts on price in nuclear sale

The government admitted yesterday it might raise as little as £1.26bn (\$1.92bn) from the sale of British Energy, the nuclear power company which is being floated on the stock market next month. The offer prospectors, published yesterday, said the market value was expected to be £1.26bn to £1.96bn. This is an unprecedently wide range for a privatisation, and under-lines the unique difficulty of pricing the world's sole nuclearonly power generator.

The government is raising a further £700m in debt loaded on British Energy, which would give total proceeds of £1.96bu-£2.66bn. Only if the government hits the top of its target range will it raise the £2.6bn it planned when the privatisation was announced last year.

Launching the prospectus, Mr Isn Lang, the trade and industry secretary, said the sale marked "the culmination of the privatisation of the electricity industry". The company is being sold in an international tender offer for instintional investors and a separate discount offer to UK retail investors. The price will be set in the tender early next month, but the prospectus indicated a range of 180p to 280p a share. UK retailinvestors will get 5p a share discount, paying 100p as a first instalment compared with 105p for institutions. The 1.7m investors who have registered for the offer at share abops designated sales outlets - will get a 1-for-15 bonus issue or a 10p discount on the second instalment, which is payable in September 1997. Stefan Wagstyl and Simon Holberton.

Insider dealing alleged

A former director of Eastern Electricity - the privatised utility - has been charged with insider dealing over his alleged purchase of shares in Seeboard, another regional electricity company, the Department of Trade and Industry confirmed

Dr Douglas Swinden, a former corporate strategy director of Eastern Electricity, faces two charges which both allege that in August 1994, he bought 2,000 Seeboard shares contrary to

new insider dealing legislation.

The charges claim that the share purchase was made on August 1 1994, after Dr Swinden allegedly saw a letter written a week previously by Professor Stephen Littlechild, the elec-tricity regulator, to Mr John Devaney, Eastern's chief executive. The letter contained information about Seeboard, it is claimed. Dr Swinden appeared at City of London magistrates court on April 25. His trial is expected to start on November 18 this year at Middlesex Crown Court. He has been given unconditional bail until then.

Eastern Electricity said the matter was a private one for Dr Swinden. However, the company added: "I understand he is to mount a robust defence." Dr Swinden could not be contacted John Mason, Law Courts Correspondent

Exchanges to merge in September

The London International Financial Futures and Options Exchange (Liffe) and the London Commodity Exchange (LCE) are planning to complete their merger by mid-September, according to formal proposals announced yesterday. Liffe is offering LCE shareholders £1.27 (\$1.94) for each ordinary share, valuing the smaller commodity exchange at approxi mately £10.3m.

The deal, which brings together Europe's biggest financial and commodity futures markets, was originally agreed last year. The merged entity will be the only exchange in the world to offer trading in futures and options on financial, commodity and equity index products, as well as options on individual entities, according to Mr Daniel Hodson, chief executive of

As well as buying LCE's sbares, Liffe is simultaneously inviting subscriptions from LCE members, existing Liffe members and others for up to 250 new "F" sbares in Liffe (Holdings) at a price of £15,000 each. Holders of "F" shares will be market and take up rights to trade the commodity futures and options contracts being transferred from LCE to the merged market. The first closing date of the offer will be 23 August. the final closing date 6 September, with the new merged market opening on 16 September.

Richard Lapper, Capital Markets Editor

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Royal palaces cut costs

Government funding for the occupied royal palaces has been cut by 25 per cent through savings to £20.44m (\$31.21m) in 1996 since Buckingham Palace took over their upkeep in 1991. The annual report by the director of property services, forecasts that further efficiencies should take the figure below £15m by

the end of the century.

The report confirms that work on fire-damaged Windsor Castle is 65 per cent complete and within budget at less than £40m. The modernisation of the royal finances has helped produce some spectacular savings - expenditure on gas has fallen 37 per cent in real terms thanks to energy conservation and other measures. Big projects planned in the next five

years include the rewiring of Clarence House and the estab-lishment of a computer database on the palaces. Grant-in-aid is one of the expenses provided by the govern-ment – in return for the surrender by the Queen of the net surplus of the crown estate and other revenues which amounted to £88m in 1994-95.

Jim Kelly, Accountancy Correspondent

Mail and Tube workers strike

Hopes that today's second one-day mail strike may be the last rose yesterday after the executive of the CWU postal workers' union decided against calling fresh stoppages. Discussions with Royal Mail on working arrangements will continue next week, and the union said it would consult its branches and reconsider the situation in the light of the "outcome of further negotiations".

 Commuters on London Underground trains face worsening industrial action after today's one-day strike over pay and hours by Aslef, the train drivers' union. A larger rail union. the RMT, said it would ballot all of its 6,000 Tube members on a series of one-day strikes in pursuit of a claim for shorter working hours. The RMT, which is seeking an extra five days' holiday for its members, said it would co-ordinate strikes with Aslet, which has already called further one-day stoppages on July 3, 8 and 16.



Unidare PLC -Company Announcement

announce that Mr Jack Hayes MBA, FCA, FCT, will succeed Mr James P Cullitoo as Chairman of the Company, on 30th September 1996.

Sugar Company, now Greencore and commutes to serve as a nonexecutive director of the Jones Group plc. Unidare's major area of activity

manufacture of products in the welding and beating industries in the United States, the United Kingdom and the Netherlands. The Group also has interests in plastic processing and sheet served on the hoards of a menal fabrication in Ireland and number of Irish semi-state the United Kingdom.

Brussels allocates beef compensation grants By Deborah Hargreeves in targeted. The UK was allocated way but it could take over a while all live cattle will be

London and Neil Buckley in

European Union farm ministers yesterday agreed oo how to share out an Ecu850m (\$1.05bn) support package for farmers hit by the collapse in the beef market caused by the

mad cow" crisis. Heads of government at last weekend's Florence summit agreed to increase total compensation to farmers from Ecu650m to Ecu850m. Farm ministers agreed to allocate

just over 30 per cent of the increased aid on a national basis, with the rest distributed through increased subsidies for

cattle. Ecu23 per head for male cattle,

Farmers will receive an extra

and Ecu27 for milk cows, as "premiums" over the respective Ecu108.68 and Ecu144.9 subsidies they already receive, The remaining Ecu269m will be shared out among EU states according to the size of their cattle herds. Member states are free to decide how to use this

money, and how it should be

Ecu34m against Ecu51.5m for Germany and Ecu66,5m for France, which has the EU's largest cattle herd. France secured an agree-

ment that member governments could supplement EU support for one year with their own aid, np to an amount equal to their share of the total EU package.

Some of the steps to eradi-cate BSE in the UK, agreed at last week's Florence summit such as stricter controls in abattoirs are already under

year to set up an electronic database to track cattle movements as required by the European Commission.

Mrs Angela Browning, junior agriculture minister, said the current schemes for eradicating BSE would cost £2.5bn (\$3.8bn) over the next 3 years. But the government is still in discussions with farmers over compensation levels for the selective cull of cattle most at risk of contracting BSE.

The cost of setting up a cat-tle database is estimated at slaughterbouses.

issued with paper passports to record their movements to and from farms. They will also be required to have two ear tags as a security measure to make their identity much harder to

The government has also earmarked £37m to improve standards in abattoirs, according to Mr Johnston McNeill, chief executive of the Meat Hygiene Service which is responsible for overseeing

worldwide corporate gover-nance guidelines for investors and commanies. Speaking at the first annual meeting of the International Corporate Governance Network (ICGN) in London, Sir Colin said that he did not "want new burdens or regula-tion; rather we should look for

a universal set of guidelines or a code of conduct". Sir Colin said that the globalisation of business was leading to the development of international corporate governance standards on a voluntary basis. I believe that we should have

a two-tier governance system, one at national level and the other, international." Institutional investors and

companies in the UK follow the Canbury and Greenbury corporate governance codes, but US pension funds investing in the UK have complained that these codes differ from US governance codes. Mr Richard Regan, chairman

of the ICGN conference and head of investment affairs at the Association of British Insurers, said yesterday that he hoped the 70 conference delegates from 11 countries would agree on a basic set of princi-

ples including:

• Institutional shareholders should vote at company meet-

· Company directors should have to regularly submit for re-election by shareholders. · Anti-takeover devices at companies are undesirable.

One share should equal one

Standards board to alter Airline collapses accounting for goodwill

By Jim Kelly, Accountancy Correspondent

Large UK companies will be able to preserve brands on their balance sheets at the purchase price onder plans published yesterday by the Accounting Standards Board. The move would leave the

UK ont of step with interna-tional standards and the US but both standards authorities and the IIS are understood to be studying the ASB's proposals and may follow suit.

The preservation of brands on the balance sheet will be welcomed by companies such as Guinness hnt attacked hy those who rely on "home grown" brands – such as Marks & Speocer. Sir David Tweedie, chairman

will and intangible assets - an issue which has defled solution for nearly two decades. The signals yesterday were that Sir David's plans would win qualified support even though they would outlaw the

of the ASB, has put forward the proposals in a draft

accounting standard on good-



David Tweedie: his plans bave won qualified support

way in which most UK compa-nies now account for goodwill - the difference between what a company pays for another company and the net fair value of the assets.

Current UK practice allows a choice between writing goodwill off to reserves - not nor-mally allowed outside the UK - or capitalisation on the balance sheet and enforced amortisation, which depresaes

future reported earnings, Sir David proposes that good-will should be treated like an asset - capitalised and amor-

CONTRACTS & TENDERS

BEDDING NOTICE INTERNATIONAL PUBLIC BEDONG EDICT No. 005/95
TOURISM DEVELOPMENT PROGRAM FOR BRAZIL'S NORTHEASTERN REGION-PRODETUR-NE

> Government of the State of Bahia. ransportation and Communication Bureau - SET ment of Highways of the State of Batha - DERBA

The Department of Highways of the State of Bahla, (DERBA), an attrachic organization stitlated to the Power, Transportation and Communication Bureau (SETC) of the State of Bahla, holder of the Taxpayer Polt No. 15.2(1.519/0001-96, through its Bidding Permanent Committee hereby announces that on the 3rd of September of 1996, at 3:00 p.m., in the Meeting Poom of the DERBA'S Bidding Executive Group located in Av. Luiz Viana, Filho, Centro Administrative de Bahla, Schiqdor-BA, Brazil, will receive Tenders and Qualification Documents regarding the streamten of the construction works in the Highway BA 001, thistus-bacan's section, in the extension of 64.62 kilometers, subdivided into segment 01 — Balus-Serra Grande, 35.54 kilometers — and segment 02 — Serra Grande-Bacaré, 23.06 kilometers — described within the acope of the Edict.

Brazillan and overseas companies proceeding from Inter-American Development Bank (IDB) member countries reay take perf in this histories.

Brazillan and overseas companies processing from manufacture the subject of this Edict after be originated in the PRODETUR-NE (Tourism Development Program for Brazil's Northeastern Region), which is pertially funded with resources guaranteed in the Loen Agreement No. 841/00-814 settled between the IDB and Banco do Nordeste do Brasil SIA (BNB), and the Statu of Barita corresponding financial counterpart, according to the Budgetary Act No. 6701/84, of December 28, 1994, and Decree No. 3996/95 of February 7, 1995.

The Edical consists documentation have be obtained in Salvador, Bahsa, Brazil, Av. Luiz Viens Filhe, Centro Administrativo de

The Edito complete documentation may be obtained in Salvador, Bahra, Brazel, Av. Luiz Viens. Filhe. Centro Administrative de. Bahra, from July 17, 1986 to August 27, 1936, from 01:00 p.m. to 06:00 p.m., upon presentation of credentials and payment of R\$150.00 (one hundred and fifty reals).

tised - bringing the UK into line with the rest of the world. This should make no difference to the share price as future cashflows are not affected.

But companies can escape enforced amortisation if they can show that the goodwill, like a brand, has not wasted away. They would do this by using an "impairment test" designed to predict future cashflows flowing from a brand, publishing title, franchise or other goodwill.

Mr Nigel Turnbull, finance director of Rank Organisation. said: "Obviously the people used to writing everything off will be disappointed. But those who want to maintain the value of brands have the ability to do so. If the ASB makes the case internationally FDs

Mr Peter Holgate, technical partner with Coopers & Lybrand, said: "I am particularly encouraged by reports from the International Accounting Standards Committee that other countries, and the IASC itself, are interested in following the approach."

GOVERNO

Gil Ruy Lemos Couto Paulo Porto Maciel

Hugo Jorga da Pabão PURTHER MEMBERS OF THE COMMITTEE

after safety scares

By Michael Skapinker, Aerospace Correspondent

Excalibur Airways, the British charter airline, yesterday failed after safety scares on its aircraft caused a collapse of consumer confidence.

Mr Andrew Peters of accountants Deloitte & Touche, who have been appointed provisional liquidators, said the airline had lost £1m (\$1.53m) over the past three months and had total liabilities of at least £5m. Mr Peters said he hoped to find a buyer for the alrline, which has 180 staff. Mr Peters said the airline

had "many thousands" of bookings and about 3,000 customers stranded overseas. He believed the operators and agents were covered by bonds organised by the Association of British Travel Agents and so could arrange to bring their customers back to

Britain on other airlines. Excalibur has recently suffered bad publicity over two delayed flights. The first was

smoke on board. Passengers refused to board the aircraft in spite of assurances that it was safe. The second delay occurred in Manchester, England, this week when the aircraft suffered a cracked windscreen and other technical problems. Mr Peters condemned media

coverage of the two events as 'sensationalised". He said reporting of the

events resulted in a collapse of consumer confidence early in the summer season when charter airline finances were at their weakest. He said the company had been negotiating with a potential new investor but these talks hroke down earlier this week. Excalibur, which is owned

by Globespan, the Edinburgh-based tour operator, had one leased DC-10 aircraft and had planned to lease two more. Globespan has not itself gone into liquidation. The airline provided flights from London's Gatwick airport, East Midbegin flying to Australia.

lands airport and Manchester to Orlando. It had planned to delayed in Orlando, Florida, after passengers saw hlack Scheme to cut 30% from

An initiative to reduce the cost of building chemical works, oil refinaries and other process

Industry. Some 30 companies including customers such as National Power, Powergen, Conoco, Du Pont, Zeneca, and Shell and contractors Amec, Taylor Woodrow, John Brown, Fluor Daniel and MW Kellog are supporting moves to cut more than £10bn (\$15.3bn) from construction costs over the next

Mr Tim Eggar, industry minister, hopes the initiative will achieve substantial cost savings and make Britain a more attractive location for inward investment by internanies. US petrochemical companies previously have criticised UK construction costs for being up to 20 per cent higher than for some rival locations industry department in the off-

UK remained relatively expensive, said the department. The cost-cutting efforts will include encouraging the use of standard forms of contracts

suppliers to improve construction and operating processes.

To achieve these aims the

companies have founded a new organisation to be called Achieving Competitivenesa Through Innovation and Value Engineering (Active). This will tional petrochemical compa- develop industry guidelines on a wide range of procurement and construction practices. Similar initiatives previously

have been supported by the

these initiatives was launched in 1992. He said: "The results have been very encouraging. In some instances single components have been studied from their end use, back through the construction process to their original supplier to see where designs

Capital expenditure by process industries, including water treatment and power generation, was expected to total about \$40bu in the UK over the next three years. Annual subscriptions to join Active are likely to be £5,000

building costs is launched on the Europe and mainland. shore oil and gas, aerospace Construction Correspondent The industry department com-missioned studies to see if these complaints were valid but said that avidence on costs was inconclusive. plant by up to 30 per cent in the UK will be isunched today What was clear was that some investors continued to believe that construction in the by senior industry leaders and the Department of Trade and

and construction components, more efficient tender procedures to reduce bidding costs as well as closer co-operation between customers, designers, contractors and component

and vehicle sectors.

Mr Eggar said yesterday that the offshore oil and gas industry was already achieving savings of 30 per cent on new developments since the first of

can be simplified and improved."

with the organisation expected to have completed its work within three years. Mr Eggar stressed that the government had not paid any money to aid Active although it strongly supported its aims and would

Unidare pic is pleased to companies including the Irish

Mr Hayes joined the board of Unidare in 1990. He was Managing Director, Finance and Development with CRH the international building materials group, notil 1994 when he became a non-executive director of that company. Mr Hayes has

is the distribution and

1

POWER, TRANSPORTATION AND COMMUNICATION BUREAU

attend Congres

Genetic conflict

Research into breast cancer has highlighted concerns about the use of information, says Clive Cookson



When Jeremy Rifkin, a longstandlng campaigner against the blotechnology industry, launched a worldwide "genetic rights movement" in Washington last

month, two particular genes acted as a focus for the 250 organisations taking part: the breast cancer susceptibility genes.

BRCA-1 and BRCA-2, as they are

called, have crystallised concerns about the handling of human genetic information – for example, whether the discoverers of new genes should be allowed to patent them; how genetic tests should be made available to patients; who else should have access to test results; and how people should be protected against the misuse of genetic data by insurers, employers and others.

The international competition to

identify the first breast cancer gene was probably the most publicised scientific "race" of the 1990s. And when the winners - Myriad Genetics, a Utah-based biotechnology company, working with the University of Utab - promptly sought a very broad patent over BRCA-1 in 1994, there was considerabla disquiet. Oppositioo came not only from "genetic interest groups", arguing that genes are natural human blueprints which should not be patented, but also from other scientists who had co-operated with the Utah group during earlier

stages of the research.

"What they did to their collaborators was quite offensive," says Gordon McVie, director of the Cancer Research Campaign, a UK charity. "We were incensed when, having contributed all the UK families to belp this group get the structure of the gene, we were suddenly shunned. I don't think there has been a better example of what scientists fear about the commercialisation of their work."

ation of their work."

Then, last December, the Institute of Cancer Research and Cancer Research Campaign held a news conference in London to announce that their researchers had won the

race to find the second gene - only to be trumped by a statement from Myriad later the same day, saying that it had got there first. Although both groups have filed patent applications on BRCA-2, and earlier this year there were tentative discussions between them over working together to exploit the discovery, Myriad says it is sufficiently confident about the strength of its claim to proceed on its own.

to proceed on its own.
But CRC Technology, the charity's technology transfer arm, is standing firm. "We believa that we have a very strong position on the patenting of BRCA-2 and we are in discussion with the academic and commercial sectors about the hest way to exploit the technology, first for diagnostic tests and then for therapeutics," says Emma Plummer, a business manager with CRC Technology. "We do not want it to come to a big patent battle in the courts, but if neither side backs down it could come to that."

McVie says CRC is looking for "a partner robust enough to take on Myriad and establish a crosslicensing deal so that they do not have a monopoly on both genes".

Although there are almost certainly other "breast cancer genes" waiting to be discovered, BRCA-1 and -2 are responsible between them for most cases of familial breast cancer, the inherited form of the

disease that particularly affects

younger women.

Research by the US Centres for Disease Control, published in the journal Cancer this month, suggests that mutations in the two genes are responsible for 7 per cent of breast cancer cases — and 10 per cent of ovarian cancer — in the general population. The proportion of women with breast cancer carrying one of the defective genes ranges from 33 per cent in the 20-29 age group to 2 per cent in the 70-79 group.

In fact, talking about breast cancer genes is an oversimplification. Everyone carries two copies each of BRCA-1 and -2. When functioning properly, both produce a protein that belps to suppress the growth of cancer cells in the breasts and ovaries. Researchers have identified

Mortality rate (per 100,000)

60 — Bagland & Wates

W.Garmany

40 — W.Garmany

The breast cancer toll

more than 100 mutations of both genes. A woman who inherits one defective version of the gene in all her cells, because of an inherited mutation, is vulnerable because the second copy may be damaged, for example by exposure to environ-

1070 72 74 78 78 80

proliferation are removed and she is likely to develop cancer.

Scientists from Vanderbilt University and the University of Washington recently suggested that BRCA-1 enables breast and ovarian cells to secrete a protein that suppresses tumour growth. This could potentially be developed into a valuable anti-cancer drug; if so, Eli Lilly, the US pharmaceutical giant that has licensed therapeutic rights to Myriad's BRCA-1 patent, will be

mental carcinogens, in a few cells.

Then the brakes on uncontrolled

in a strong position.

But most of the important scientific questions about the breast cancer genes are still unanswered. No one knows what BRCA-2 does, how its biochemical pathway relates to

that of BRCA-1, or why these genes affect cancer in some tissues but not in others. (BRCA-2 is much less active than BRCA-1 in the ovaries but appears to be responsible for

some prostate cancer in men.)

Meanwhile, Myriad is about to
start final trials of a diagnostic test
for BRCA-1 at 14 cancer centres; its
commercial launch is expected late
this year. The company says a combined test for BRCA-1 and -2 will be
available next year.

But non-commercial testing for breast cancer genes is already under way at several centres. The Royal Marsden bospital in London offers a BRCA-1 test with support and counselling for women with a strong family history of breast cancer (at least four previous cases in close relations less than 60 years old) and it expects to begin testing for BRCA-2 within two mouths.

"Many women with a strong family history of breast cancer suffer great anxiety through not knowing whether or not they have the defective geoe," says Ros Eeles, who runs the Royal Marsden's genetic testing programme. "The test can, for those who want it, do much to relieve that uncertainty."

Peter Meldrum, chief executive of Myriad, says his company's commercial tests will "only be available through a physician, with appropriate counselling". There is no question of such tests ever being sold over-the-counter.

Even so, some patient groups, such as the US National Women's Health Network, claim that in the present state of medical knowledge, testing offers women few advantages and many possible adverse effects – including "devastating psychological effects" not only on the individual being tested but on her whole family. "Until we have effective prevention strategies, tests for 'cancer genes' benefit mainly the commercial companies that market them, who stand to make huge profits by exploiting women's justifiable fear of cancer," they say.

Mike Stratton, leader of the inter-

justifiable fear of cancer." they say.

Mike Stratton, leader of the international team that discovered
BRCA-2 at the Institute of Cancer
Research, London, agrees that there
is still much medical ignorance –
for example about the psychological
consequences of testing and the
best preventative tactics for carriers
of breast cancer genes. Some young
women go so far as to bave "preventative mastectomies" – both breasts
are removed surgically to reduce
the risk of cancer – while others
settle for frequent monitoring.

But Stratton adds: "We are living in a society that has given people more and more information about themselves. It is very paternalistic to start saying we don't think you should have access to this particular information."

And there are positive aspects of screening, most notably for women who find that their genes are normal and therefore they are not at unusually high risk of developing breast or ovarian cancer.

One risk of genetic testing emphasised by Rifkin's Foundation on Economic Trends is that the results could get into the wrong hands particularly those of health and life insurance companies. The threat of bing deprived of health insurance is more serious in the US than the UK where the National Health Service provides a medical safety net.

On the Issue of genetic privacy, Myriad agrees with Rifkin's campaign. "Thirteen states [in the US], including California and New York, have passed legislation preventing insurance companies making use of genetic information," Meldrum says approvingly. "We strongly support any legislation that prevents the misuse of genetic information."

The series on human genes continues next month with a look at heart disease.

Worth Watching · Vanessa Houlder



Lighter stretcher to the rescue

A lightweight, inflatable stretcher could speed up mountain rescues by allowing the search party to carry the casualty to safety without waiting for a separate stretcher party.

The stretcher, designed by students at London's Royal College of Art, weighs less than 4kg and can fit into the standard mountaineering rucksack of a search party member.

search party member.

The stretcher consists of two canisters of polyurethane foam and an uninflated nylon fabric stretcher. The rescuer injects foam into the fabric which expands and hardens to form the stretcher; the canisters then become the stretcher handles. The cost of the stretchers would be £200, if mass-produced.

£200, if mass-produced.

Royal College of Art: UK, tel 44
(0)171 5845020: fax 44 (0)171 584
8217.

Inspection for undersea pipeline

Undersea pipelines are traditionally inspected using a video camera attached to a remote-controlled vehicle travelling inside the pipeline tunnel, Paul Taylor writes.

But these systems are slow and labour intensive as they involve viewing many bours of video tape of barely visible images.

Now Silicon Graphics, the high-performance compoter manufacturer, Norske Shell, the Norwegian subsidiary of Royal

manuacturer, Norske Shell, the Norwegian subsidiary of Royal Dutch/Shell, and Morrison McLean, a Scotland-based software developer, have introduced a simulated virtual reality system that was used to inspect the recently completed 3.7km Shell Troll pipeline tunnel under the North Sea.

The system, based on a Silicon Graphics Onyx computer system, can pinpoint a fault using remote sensors which feed data to a compoter model. The features are then mapped oo to a 3D model of the tunnel. Silicon Graphics: UK, tel (0)1734

257925: far 1011734 257505. Reading the ripples

Foreign exchange traders could gain new insights into options pricing theory from studies of turbulence in fluids, according to a report in today's Nature.

In Forex trading

The action of long-term foreign exchange traders, who watch the market only from time to time, is known to influence the behaviour of short-term traders, who study the market continuously.

Recognitions at the Institut file.

Researchers at the Institut für Physik in Basle in Switzerland bave found that the way that information cascades from long to sbort timescales in financial markets bas a parallel in bydrodynamics, in which energy is dissipated through a hierarchy of eddies of decreasing

Although it is unlikely that the foreign exchange markets could be modelled entirely using equations similar to those that describe fluid flows, the researchers believe they have found a conceptual framework for understanding the short-ferm dynamics of speculative markets.

Institut für Physik: Switzerlond, tel 41612673743: fax 41612673784.

Diesel wax crystals made to wane

Research ronducted by Danish and Israeli scientists into crystal formation is expected to lead to new additives for diesel fuel. This rould tackle the build-op of wax crystals in engines and pipes that cause particular problems in cold climates.

Scientists at the Weizmann
Institute in Israel, Copenhagen
University and the Riso National
Laboratory in Denmark made
X-ray studies of the formation of
hydrocarbon crystals in diesel

The researchers found that the sborter the bydrocarbon chains, the more layers of crystals, and so more wax. it formed. They also found that the bmild-up of layers of wax crystals could be prevented by adding a long-chain

alcobol to the bydrocarbon.

Weizmann Institute of Science:
Israel, tel 97289343852; fax
97289344104.

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plants – for fossil-fueled power plants, nuclear installationa and hydro power

Faith in our turnkey expertise

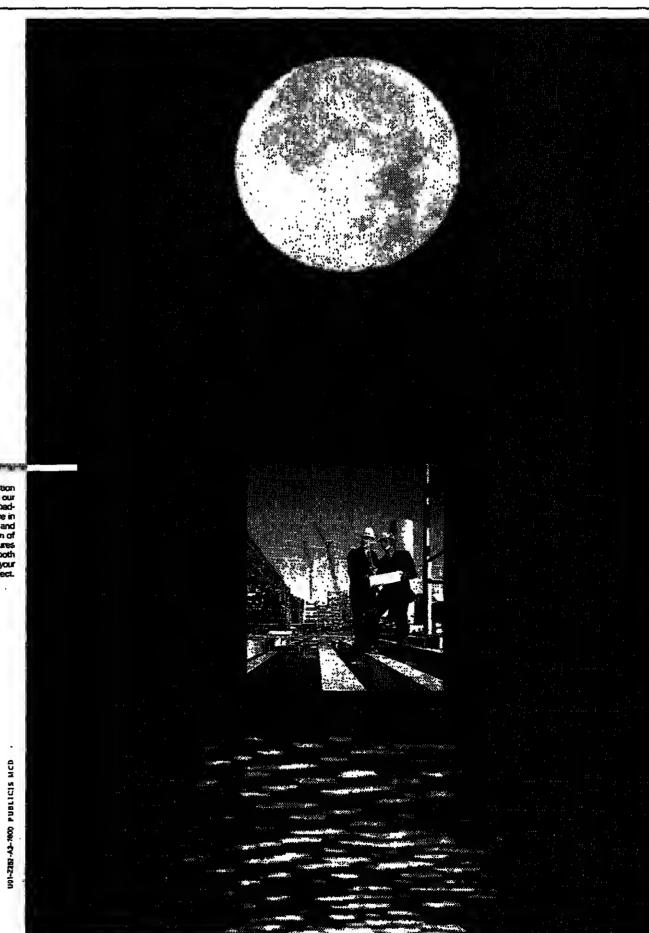
Examples of our global turnkey activities since 1991 alone include the responsibility for six power plant projects in Indonesia and Malaysia with a total capacity of 2450 MW. In the same period, we received five orders from Great Britain for tha turnkey construction of combined-cycle plants with a total capacity in excess of 4000 MW. Thanks to continuous improvements in project processing, we have been able to cut construction time to less than two years for combined-cycle power plants.

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Océ and Siemens Nixdorf Printing. The new global force in printing

Laboured slab of American Gothic

rible sight in late June. They walk blinking into their darkened Soho preview theatres, ill-kempt of appearance and clutching tremulous coffee cups. They know that the sun is shining outside and that the air to the south is popping with famous tennis balls. They know too that every other worker in London can at laast open a window and listen to a cheeping bird.

We must open our minds to the worst that distributors can send down a projector beam. All the product that they dare not release when moviegoers are actually going to movies that is, spring, autumn or winter - is uncanned and upended over us midsummer detainees

This result is a week full of things like The Passion Of Darkly Noon and The Thin Line Between Love And Hate, where even the titles are a struggle to get through. The first is a slah of American Gothic from Britain's Philin Ridley, who screenwrote The Krays hefore debut-directing the bizarre but interesting The Reflecting Skin.

That too was set in a never-never America and was famous for its exploding frog sequence. (If you don't know, don't enquire.) Ridley has now swapped the earlier film's harsh prairies and sexual madnesses for dark forests and, er, more sexual madnesses.

Darkly Noon is the name of the mysteriously injured young man (Brendan Fraser) brought into the tumbledown woodland home of the blonde Callie (Ashley Judd). Though he has survived an attack on his religious cultist family, this stammering Bible-clutcher cannot long survive Ms Callie's tendency to rub ice cubes on her bosom and to wear light, thigh-revealing shifts while

repairing the roof. Soon we are off and running into a plot that could have been written by Angela Carter unproductively teamed with Tennessee Williams. When it is not dispensing laboured, heavy-breathing eroticism, it breaks for moments of magical realism like the glant silver (why?) or the circus folk who suddenly turn up (again why?) in the last scene of mayhem and tragedy. (Ridley in the press notes says we should avoid asking the question why. To which the only response is why?)

At once overdetermined and underconceived, this is the kind of "grown-up fairy tale" that denigrates both grown-ups and fairies. The first could sue for defamation of intelligence,

> THE PASSION OF DARKLY NOON Philip Ridley

THE THIN LINE BETWEEN LOVE AND HATE Martin Lawrence

HEAVEN'S PRISONERS Phil Joanou

MOONLIGHT AND VALENTINO David Anspaugh

EMPIRE RECORDS Allan Moyle

the second for attribution of whimsicality beyond even their tolerance level.

Martin Lawrence, a popular black comic actor on American TV who starred in the movie Bad Boys, wrote and directed The Thin Line Between Love And Hate as well as starring in it. Could he sue himself for dis-sipation of talent? This sol-disant comedy thriller plays like Sunset Boulevard awkwardly crossed with Fatal Attraction.

We begin with a body in a pool and proceed to the flashhacked tale of a woman scorned (Lynn Whitfield). Between this violent alpha and omega there is an entire alphabet, mostly in Greek, of ethnocomical dialogue, obscurely trivial movie references and guest cameos by people we have never heard of, Perhaps it is helpful to be an American television addict. Then again, perhaps it isn't.

A great feature of silly season press shows is shared despair. For those like myself who favour the front row, light from the screen exposes us to our neighbours and to the beartfelt pantomime that occurs during bad films. The Independent casts an eyes-toheaven look at the Times to his right. The Times makes sighing noises for the benefit of his right-hand neighbour, the Financial Times. And the FT turns to carry on the semaphore, but sees only two critics

wrapped in enviable sleep. This was the scenario during much of day two, when we saw Heaven's Prisoners, Moonlight And Volentino and Empire

I have a lot of time for Alec Baldwin, but not 2% hours when he is speaking with a Louisiana accent. In Heaven's Prisoners he plays a retired cop trying to live a simple married life with Kelly Lynch on the bayous. But when a single-engined plane crashes in the sea, narrowly missing his fishing ketch, it opens a can of worms quite different from those he sells in his neighbourhood bait shop (where he never seems to work).

Guns, beatings and southern gothic dialogua ensue. So do Mary Stuart Masterson as a goodhearted stripper and Eric Roberts as Baldwin's best friend, wearing the most startlingly changeable hairstyle in history. For most of the film it is short and Afro-braided. Then suddenly in the dimly lit, gunblazing denonement it is thick, lush and nearly shoulderlength. Did Roberts go and make another film in the meantime? Or did his sister Julia steal in to polish off the final reel?

Every actress but Julia Roberts seems to be in the comedy-weepie Moonlight And Valentino, except for those who have already done female bonding service in Waiting To Exhale and How To Make An American Quilt.

Whoopi Goldberg is the best friend, Gwyneth Paltrow is the sister, Kathleen Turner is the stepmother and Elizabeth *Big* Perkins is the heroine, wid-owed when her husband is killed by a car while jogging. This actually happened to screenwriter Ellen Simon,



Brendan Fraser in Philip Ridley's "The Passion of Darkly Noon"

adapts her own play. But while we offer sympathy for the reality, the re-enactment is a long and losing battle with trite-

We no more believe in schoolteacher Perkins's dazed but joky togetherness after the accident than we believe in her delayed-action breakdown during a literature class. She stalks in, après-mourning, with "Well, guys, back to French aestheticism." She walks out moments later, choked again by memory and setting her pupils for homework a "poem Neil's daughter, who here without words." We never see

the results. But they would probably be like this film: a movie without movement, or the skill to move us.

Empire Records is, foute de mieux, as good as the week gets. That is, bad but fun. The girls and boys who run a takeover-threatened New Jersey record shop fight back with songs and collection buckets, while also taking time to sort out their love lives. Bright and quirky performers - Liv Tyler, Anthony LaPaglia, the Rowan Atkinson lookalike Robin Tunney - make the time pass

quickly. Or possibly by late Tuesday we had lost all sense of time anyway.

One can always flee to Golden Oldie land. Hitchcock's Quebec-made I Confess (15), which inspired the new Robert Lepage mystery thriller-cummovie meditation The Confessional, is revived at the Renoir. And at the Empire, Time Out magazine has sponsored a week-long centenary programme, continuing until Monday, of films including L'Atalante, Schindler's List, 2001 and the inevitable, unstoppable Cit-

izen Kane. tenderness of Pierre. Ronan Vibert's exterior, and the degrees to which his manner thaws or freezes; but it is an unrelentingly tense and simplistic

The best pleasure of the acting comes from watching people playing more roles than one. Rakie Avola is a handsome, malicious, sinister, vain Hélène and a silly, futile Mile Bourienne; John Warnaby is both Bonaparte and Boris Drubestkoy, Peter de Jersey is both Petya Rostov, and Anatole, Cathryn Bradshaw is both Andrei's wife Lisa and Natasha's cousin Sonya, and each of them are charmingly right in either role.

However easy it may be to find fault in a staging of War and Peace. this one shows the wonderful range, sweep and detail that makes War and Peace unique. We experience characters from inside and outside at the same time, and we are whirled through their stories with superb narrative force.

In National Theatre repertory at the Cottesloe Theatre, South Bank, SE1.

Fête de la musique, Paris

'Jenufa' adds to the spirit

f nothing else, it ls a noisy event. All day the traffic in central Paris is at a standstill. By mid-evening the Métro is hursting at the seams and crowds fill the pavements. Around midnight boisterous packs of roller-skating yonths start roaming the city and the air resounds with competing police sirens. This is the annual "fête de la

musique". Around 550 'manifestations" were expected in advance, most of them informal groups setting up on the pavement and often playing into the early hours. To join in the spirit foor of the city's opera-houses were playing interesting productions over the weekend. As so often in recent years,

the one that aimed highest was the Théâtre du Châtelet with its amhitious new production of Janabek's Jenula, which imported a foreign symphony orchestra to be in residence for the ten-day run of performances. Money is no obstacle to artistic excellence in this city. The Chātelet has done this

before (and will do so again) with the Philharmonia from London, but on this occasion the visitors were the City of Birmingham Symphony Orchestra and Simon Rattle a choice fully vindicated by the impassioned performance they dalivered at the opening night on Thursday. Rattle has conducted other Janáček operas and is developing his own view of the music, more earthy and red-blooded than Mackerras, the west's resident Janáček specialist.

With his own orchestra, well rehearsed and playing with that incandescent spontaneity that is a special mark of their partnership, Rattle led a Jenufo that opened its beart to the music. This was also the first performance of the opera in Paris to be sung in the original Czech.

There were two outstanding individual portrayals. Philip Langridge is a vivid example of the singer who has absorbed the rhythms and angularity of Janacek's music and welded them to a modern physical response to the drama. His Laca was a man of frightening intensity barely under control, second cousin to his Peter Grimes. As at Glyndebourne. Anja Silja was a compelling performance equally avoids any standard operatic cliches.

Between them, they dominated the stage. This was a bare production in a standard modern style, which refused to admit any Czech elements that might have been construed as picture-postcard folksiness. The producer, Stéphane Braunschweig. concentrated on states of mind, although he failed to peer very deep into Jenufa herself, who remained simply demure girl in Nancy Gustafson's quiet performance. Graham Clark's Steva and Menai Davies's grandmother played two more

ldiomatic Janáček characters. At the Opéra Comigne one could less happily see a national style in decline A new production of Bizet's Carmen in the delightful opera-house where it had Its first performance seemed a good

idea, hut perhaps it was too much to expect that the opéra-comique spirit of 1875 could be conjured today. The strongest aspect here was the exciting orchestral performance, conducted hy Lawrence Foster. He was using the version played at the premiere, which was

interesting in itself. The rest exhibited as much energy as If the opera had been running without a hreak for the last 120 years. The producer, Louis Erlo, had decided to give the opera a "new slant" by going against its obvious spirit wherever possible. So Carmen did not dance or play her castancts. The cigarette-girls did oot brawl. Passions did not run high; indeed they harely ran at all, making Katarina Karneus's promising young Carmen seem eveo cooler than her own nature might have demanded. Luca Lombardo's Don José had intensity but oot grace. Annick Massis was a bright-voiced Micaela in the Gallic style - the only link with French tradition. At the Opera Bastille the

Simon Rattle and his orchestra delivered an impassioned performance

new production was Bellini's Normo. This was the sort of evening that one might meet at any of the world's grander opera-bonses, in which star soloists fly in to take their places in a well-oiled, uncontroversial stanging. In fact, given the difficulties of getting Normo to work in the theatre today at all. Yannis Kokkos's simple blend of the romantic and the classical should be deemed a positive success. His beautifully-lit woodland setting was most

atmospheric.

There was no risk of a forest fire, bowever, A well-chosen cast, supported by trim conducting from Carlo Rizzi, went through their paces without the spark that might have set the drama alight. Susanne Mentzer was a warm-voiced and flexible Adalgisa. Franco Farina than military precision in intonation to the role of the Roman proconsul, Pollione; Dimitri Kavrakos was a sturdy Oroveso. But all eyes were inevitably on the Norma of Carol Vaness, who sings the music as well as anybody in the last couple of decades and might make the role ber own, if she can learn to stamp ber own personality on it.

All this, and no time to catch a rare production of Gluck's La clemenza di Tito (not Mozart's) at the Théâtre du Champs-Elysées. By next weekend the Opera Bastille will be on its next revival, Strauss's Salome. The Palais Garnier, the city's grand opera-house, had just finished La Cenerentola. The amount of opera in Paris is astonishing. How long will government support at this level last?

Richard Fairman

tion. If we know the novel, we are amazed that no sooner do we see certain actors in costume than we know them to be Pierre, or Hélène, or Nikolai, even before they have been introduced. And then, as in the novel, we have hardly been in their company before we seem to have known them all our lives. The adaptation is by Helen Edmundson; the direction by

he Shared Experience stage adaptation of Toistoy's Wan

tesloe auditorium, is an enthralling.

Imaginative, lovable, serious, three-

act, multi-track roller-coaster, and in

a number of ways it is remarkably

It is studded with shock of recogni-

Toistoyan.

and Peace, now playing at the National Theatre's Cot-

Nancy Meckler and Polly Teale. in certain ways, this War and Peace feels at times un-Tolstoyan - yet mainly in ways that beighten its interest as theatre. We see no landscapes or buildings; pomp and grandeur are minimised. The action occurs in one galerie des glaces, eloquently designed by Bunny Christie and lit by Chris Davey. Only a few

Theatre/Alastair Macaulay

Roller-coaster 'War and Peace'

props are used. Even a fan is indicated by a knife, a fork, and a spoon the implements sprayed out to indicate both a fan's function and its absurdity. Scenes are sometimes overlapped, to the extent that Prince Bolkonsky tells his daoghter Maria that Andrei is dead right across the duel in which Pierre shoots Dolokhov. Most striking of all, the Shared

Experience style is intensely expres-

sionistic at times, with characters expressing their fantasies in stylised physical movement. For example, the slight edge of self-flagellation with which Maria addresses God is indicated in physical terms (even in the exaggerated way she crosses herself), and the way - in the middle of her prayer - she is half-seduced by an imaginary (blindfolded) man is conveved in a brief, tense pas de deux. This War ond Peace - lasting almost 30 minutes longer than its

announced four hours, but never for an instant dull - seems to move faster as it goes along. Too fast. The battle of Borodino, and the French occupation of Moscow are particularly rushed, and some of the moments in which the novel most astonishingly shows us changes in its characters are brushed aside in the rush. Other episodes (e.g. Anatole's seduction of Natasha) are trivialised. A few of the choreographic fantasy episodes are

hose who know the novel cannot help but miss certain episodes. I can bear the neartotal removal of Tolstoy'a post-Schopenhauer meditations on history and free will, but I cannot help missing the ways in which his post-Romantic reflections on life and death aerate the novel. The most reduced character is Andrei, whose

tragic morbidity and final sense of the sublime are turned into mere English tight-lipped repression. This Shared Experience version has

its own compelling life. It is not, admittedly, as bold or as insightful as the Shared Experience Mill on the Floss, which connected desire, repression, and death with astonishing andacity. That type of revelation is best achieved here in the character of Maria. Helen Schlesinger's performance seamlessly shows the touching and dignified repression with which Maria turns her unhappiness at home and her romantic longings into religious devotion. Anne-Marie Duff emphasises the

febrile ardent and transparent selfishness of Natasha. The character, though more irritating than in Tolstoy and too breathly girlish, has a rivetting intensity. Richard Hope con-veys the bearish unsophistication and

INTERNATIONAL

AMSTERDAM

EXHIBITION Van Gogh Museum Tel: 31-20-5705200 Van Gogh drawings, part t: each summer for the next four years the Van Gogh Museum will publish a volume of the catalogue of its collection of Van Gogh drawings. To mark each publication, a summer exhibition will be held; to Sep 15

■ BARCELONA

EXHIBITION Fundació Joan Miró Tel: 34-3-3291908 Ping Pong: exhibition of paintings by the artists José Aja, Yves Bélorgey, Ignacio Hemando and Mireille Kassar, to Jun 30

BERLIN

EXHIBITION Altes Museum Tel: 49-30-8301332 Faszination der Antike. The George Ortiz Collection: exhibition of more than 280 Egyptian, Greek, Roman and Byzantine objects from

the George Ortiz Collection. Special emphasis is laid on the artistic developments in Greece from tha beginning of the Neolithic to the time of Alexander the Great; to Jun

OPERA Komische Oper Tel: 49-30-202600 Die Fledermaus: by J. Strauss.
 Conducted by Shao Chia Lū and performed by the Komische Oper. Soloists include Schellenberger, Korovina, Neumann and Sander, 7.30pm; Jun 28

BONN DANCE

Oper der Stadt Bonn Tel: 49-228-7281 Ein Sommernachtstraum: a choreography by Youri Vamos to music by Mendelssohn, performed by the Ballett Bonn. Soloists include Bondar, Moussatov, Fanan and Mamrenko; 8pm; Jun 28

■ CHICAGO

EXHIBITION Art Institute of Chicago Tel: 1-312-4433600 D.H. Burnham and Mid-American Classicism; celebrating the 150th anniversary of Daniel H. Bumham's birth and his contributions in shaping Chicago's downtown district, the Art Institute presents this exhibition of approximately 100 drawings; to Sep 2

COLOGNE

EXHIBITION Museum für Ostaslatische Kunst Tel: 49-221-9405180 Aus der Welt des Samurai:

exhibition focusing on the representation of Samurai in Japanese art. Until the mid-19th century these knights were at the top of Japan's social hierarchy; to

■ EDINBURGH

Jul 21

EXHIBITION National Gallery of Scotland Tel: 44-131-5568921 Awash in Colour: Great American Watercolours from the Museum of Fine Arts, Boston: this exhibition presents a collection of over 50 watercolours, selected from the holdings of the Museum of Fine Arts in Boston. The display includes works by Winslow Homer, Edward Hopper, Georgia O'Keeffe and John Singer Sargent; to Jul 14

■ GLASGOW JAZZ & BLUES

Glasgow Royal Concert Hell Tel: 44-141-3326633 Jazz Meets The Symphony: a concert which unites the Royal Scottish National Orchestra with a jazz rhythm section, in which planist/ conductor Lalo Schifrin is joined by Ray Brown on bass and Grady Tate on drums, with solo contributions from trumpeter James Morrison. Opening concert of the Glasgow International Jazz Festival; 7.30pm; **Jun 28**

LONDON

CONCERT Wigmore Hall Tel: 44-171-9352141 The King's Consort: with conductor Robert King and organist James O'Donell, soprano Deborah

York and obolst Katharina Spreckelsen perform Handel's Chaconne from Terpsichore, Oboe concerto in B flat and three German arias; 7.30pm; Jun 29

Royal Academy of Arts Tel: 44-171-4397438

 228th Summer Exhibition: hald every year since 1769, this is the it open contemporary art exhibition in the world, drawing together a wide range of new work by living artists; to Aug 18
FESTIVAL Royal Albert Hall Tel: 44-171-5898212

JVC/Capital Radio Jazz, Funk and Soul Festival: annual festival. presenting jazz, funk, soul and

George Benson (Jul 1.3) and Bill Cosby (Jul 5); from Jun 29 to Jul 5 LOS ANGELES CONCERT Hollywood Bowl Tel: 1-213-850-2000 Hollywood Bowl Orchestra: with conductor John Mauceri, vocalists

Paige O'Hara and Timothy Noble,

Mitch Hanlon Singers and the Children of the World Choir perform

narrator David Hyde Pierce, the

works by Prokofiev, Rodgers/

Hammerstein and Besterman;

gospel. Performers include Joe

Satriani (Jun 29), B.B. King (Jun 30),

7.30pm; Jun 28

■ MADRID EXHIBITION Museo Nacional Centro da Arte Reina Sofia Tel: 34-1-4675062 David Smith: retrospective exhibition devoted to the work of

this American sculptor. The display includes some 40 sculptures created between 1933 and 1965; to Jul 1

MUNICH EXHIBITION

Haus der Kunst Tel: 49-89-211270 Umbo - Vom Bauhaus zum Bildjournalismus: retrospective exhibition devoted to the work of photographer Otto Umbehr, also known as Umbo; to Jul 28

■ NEW YORK EXHIBITION

Guggenheim Museum SoHo Tel: 1-212-423-3840 Mediascape: the Guggenhelm Museum SoHo reopens to the public with this exhibition devoted to multimedia and interactiva art to Sep 15

OSLO EXHIBITION

Munch-musee Museum Tel: 47-22-673774 ■ Edvard Munch. Prints from 1896: exhibition of a selection of 131 prints by Edvard Munch from the year 1896, which he spent in Parls. In the workshops of August Clot and Lemercier a number of the artist's most well-known graphic works were printed; to Oct 1

PARIS

EXHIBITION Centre Georges Pompidou Tel: 33-1-44 78 12 33 Picabia 1922: thia exhibition is a reconstruction of the exhibition organized by Francis Picabla, one of the ploneers of Dada, in the Galerie Daimau in Barcelona in 1922; to Jul 1

SYDNEY **OPERA**

Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127 La Bohème: by Puccini. Conducted by Patrick Summers and performed by the Australian Opera. Soloists include Cheryl Baker and Akiko Nakajima; 7.30pm; Jun 29; Jul 1 (6pm)

WASHINGTON MUSICAL Eisenhower Theater

Tel: 1-202-467 4600 Broadway Songbooks: "Puttin on the Ritz". The Irving Berlin Sonobook: the Rainbow Revues fill the stage, which is transformed into a nightclub, with singers who explore irving Berlin's music; Tue Fri 7.30pm, Sat 6pm & 9pm, Sun 3pm & 6pm, Jul 4: 7pm; to Jul 14

ZURICH

OPERA Opernhaus Zürich Tel: 41-1-268 6666 Eugena Onegin: by Tchaikovsky.
 Conducted by Franz Welser-Möst and performed by the Oper Zürich. Soloists include Mirella Freni. Stefania Kaluza and Jitka Saparová: 8pm: Jun 28

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10.00 European Money Wheel

Financial Times Business Tonight



Peter Martin

A profitable course to take

With growing demand for lifetime learning, there is a business opportunity to create a strong global training brand providing portable standards of achievement

This article contains a business idea that will make someone rich. But first - now that I've got your attention a bit of background.

In case you didn't know it, this is European Life-Long Learning Year - just one, bathetic, example of how the developed world's politicians are falling over themselves to promote skills training. It is the only way, they say, that western labour can hope to compete with the lower-cost, highly motivated workers of east Asia. The US has its grandly titled Goals 2000: Edncate America Act; France has higger incentives for apprenticeships and new technical training colleges; British politicians from all three parties promise new wheezes to encourage more and better

training. The message is that individuals are going to have to take responsibility for training and re-training themselves over their whole working lives. So here's the business idea: branded training.

Doesn't sound very sexy? Bit of a bore? Well, consider. Until Ray Kroc came along. fried food was the stuff of mom-and-pop diners and backstreet fish and chip shops. No glamour there. Now. McDonald's is one of the classic growth stocks of the postwar era. Its storefronts are everywhere, and the company is valued at \$35bn (£23bn). The essence of Ray Kroc's insight was that a business hitherto seen as essentially messy, individualistic and atomised could be standardised, systematised and branded, first on a national scale, then on a global one.

So what's so different about training? Why has it largely remained small scale and unbranded? We'll come to that in a minute. First, some examples of companies that have already established a branded presence in training Berlitz, British School of Motoring and the Kumon Institute.

 Berlitz has been best known in recent years for its unfortunate role as one of

is now two-thirds owned by Fukutake, Japan's biggest correspondence course company. Its network of 315 language schools spans 30 countries, with a standardised approach:

an emphasis on nativelanguage teachers and the "direct method", in which all interaction with the pupil takes place in the language being taught. Revenues are more than \$300m a year, and Fukutake has ambitlous expansion plans.

British School of Motoring

has turned what is in most countries a highly fragmented business into a systematised, branded one. Its 2,000 selfemployed instructors have 15 per cent of the UK drivinglesson market.

The group lobbied the government to introduce the new driving theory examination to supplement the practical test. Now that the theory exam is compulsory, BSM may well be hetter placed than smaller rivals to teach it. Despite its strong national brand, its revenues are still small; pretax profits were £5.4m in 1995 on sales of £24m.

 The Kumon Institute tesches children mathematics (and other subjects) through a core set of principles, a

Robert Maxwell's victims, but and a network of franchised evening schools. Its founder, Toru Kumon, set it up in 1958; it now has 1.6m pupils in Japan and another 500,000 overseas, with revenues of more - than \$500m a

> branded training can be a profitable business - but they also suggest that so far it has been confined to narrow niches, with relatively limited potential revenues. What are the reasons for that? And are they about to change?

The biggest reason why branded training has not yet taken off is the lack of an imperative driver of demand. Historically, people have been educated once in their lives, between the ages of five and, at the latest, their mid-20s. The financing of this early education has come from parents and government, rather than from the individuals themselves.

Most people still have not made the shift to a world in which they will need to be continuously re-educated or trained, let alone to one in which they will need to take responsibility themselves for that re-training. They expect their employers or the government to carry the burden. Narareas such as language



Intriguingly, the one broader educational product for which users are willing to take on the responsibility of choice and finance is the MBA course - and here we have seen the emergence of some brand characteristics and even the first tentstive steps towards globalisation.
Will other areas of training

follow the same process? Your guess is as good as mine: not every apparently inexorable trend really pays off. But all the trend-watchers seem to agree that demand for training will rise steadily over the decades to come. So let us take that underlying demand for granted. It is less clear, however, that it will result in market susceptible to McDonald's-style systematica-tion and branding. It has not so far, after all,

because of two other unusual characteristics of the marketplace. The first is the role of intermediaries: governments and employers. Not only do they largely set the standards that tramers must meet, they also act as large-scale suppliers of subsidised training. It's tough for privatesector businesses to compete with that. Kumon maths teaching largely exists in the interstices of that system, supplying "top-up" edocation to children the state system is

not serving very well. An opportunity for branded trainers, however, lies in the increasing pressure on governments to withdraw subsidies from these areas, as the fiscal squeeze bites, or to privatise their provision. Another opportunity beckons as companies are less willing to guarantee lifetime employment. There will be increasing desire on the part of workers for a portable standard of achievement - one that branded training can supply.

The second aspect of the market is that standards are largely set on a national (in some cases regional) basis. Although most skills are now,

and driving lessons are among in principle, globally transfer-the few exceptions to this able, standards setting bodies operate locally. Teaching someone to drive a car is pretty similar all over the world; teaching someone to

pass a driving test is quite

different in, say, Basingstoke and Baltim Still, that's an opportunity as much as a problem: it allows would be branded trainers to set their own standards and teach them consistently around the world - potentially a strong competitive advan-tage. After all, the local standard for fast food varied widely from country to country until McDonald's homogenised it. The very act of creating a global standard

for fast food served as a mar-

keting advantage for

McDonald's.

So here is the busines opportunity: to create a strong global training brand, with a clear set of core principles and a standardised approach to quality, success measurement and process. The business model will probably be some form of franchising, with a clear distinction between the tight central control of intellectual property and sys-tem, and the loose approach to local issues such as personnel management, wages, marketing and so on.

in the short run, the train-ing company will use its brand to enhance the qualifications set by national bodies or employers. In the long run, It can hope to see its own branded diplomas replace or supplant national equivalents.

Who will be the branded trainers of the future? It's hard to say. The most obvious candidates - educational publishers - are usually bad at the sort of hands-on people skills that will be required to get the branded training franchise up and running. But someone will do it. And it would be a nice frony if the approach that McDonald's has taken in fast food could pro vide the training needed for workers to escape from the hamburger-Hipping McJobs that otherwise beckon.

BOOK REVIEW Tony lackson

REBELS AGAINST THE FUTURE: By Kirkpatrick Sale Addison Wesley, 320pp, \$24

Neo-Luddite cry in the computer age



One of the most enduring quirks human nature is the belief in a golden age.

The term may have been coined by the ancient Greeks, but the idea goes back to the expulsion of Adam and Eve from Eden. While the story takes many shapes, the gist remains the same: things are not what they were, and the world is going to the dogs. Kirkpatrick Sale's golden age

is 18th century England: a land of happy and prosperous craftsmen, with a grandfather clock in every parlour, Staffordshire china on the dresser and a vegetable garden at the back. Within a generation, we are told, all that was swept away. The land was darkened and the people enslaved by The Coming of The Machine.

It is now happening again, only worse. The signs of the second industrial revolution are manifest: acld rain, bioengineering and transnational corporations. So is its cause: The Coming of The Computer. Sale's book falls into two

parts. The first is a history of the Luddites, a group of Eng-lish workmen who mounted a brief, violent campaign against machines and their owners from 1811-14. The remainder is a rallying cry, the raising of the neo-Luddite standard in the age of the microchip.

The differences between the two parts are instructive. The Luddite section is a conventional narrative, useful if slightly specialised. It is, of course, biased: but bias is inherent in history and has the virtue here of being explicit.

The remainder is more interesting and more problematic. We have all been repelled by the works of industry at one time or another, and few would rather look at a factory than a field. As willing consumers, we know this is in part irrational: but the neo-Luddites, Sale tells us, are explicitly opposed to

He is thus in the awkward that is shrinking through min-

position of constructing an argument in defence of an emotion. The result can be somewhat tangled. His starting point is what economists call the "lump of

labour" fallacy. This states that there is only a finite amount of work to go round. Once the machines have grabbed it all, the rest of us are left sitting on our hands. The logical snag is that after

several millennia of technologi-cal advance, people are still working. Indeed the US, the world's most technologicallyadvanced society, has virtually full employment

Sale's defence is to deny this employment is real. The origins of this argument lie once more - in the 18th century, this time in France. In its pure form, it says the only productive work consists of extracting produce from the earth. All other work is sterile.

Sale seems to think real jobs are being exported to the developing world through a conspiracy between the multinational corporations and the World Bank. This has polarised US society into two equally unproductive groups: a hand ful of computer and financial experts on top and an army of impoverished hamburgerflippers below.

The picture is rather at odds

with the fact that the US is also a net exporter of food and many basic manufactures. But it is central to Sale's argument for another reason. If technology causes the export of jobs, it follows that computers are responsible for production wherever it takes place. They are therefore to blame for damage to the environment worldwide. Since that damage is cumulative, it is logically finite. Therefore, technology must fail.

Deny that premise and the fallacy is obvious. Artificial intelligence makes no claims on the environment. It is literally immaterial, a thing of digital bits. It employs some hard-ware as a medium but even

cause forests to be levelled in Brazil, or chemical plants to be built in China. These are the effects of the first industrial revolution, still working its way round the globe. If anything, today's technology can

help clean up the mess.
If playing the environment card is something of a dodge. one can see what prompted it. The real damage done by the information revolution is social: job cuts, family stress and the anxiety of rapid change. But capits lism goes through those convulsions of regular intervals and survives. The first industrial revolution was horrible, but the Luddites

failed. Whether the neo-Luddites fail depends on how they measure themseives. They will not cancel human ingenuity, or resurrect an imagined past. They will not even abolish the computer.

They can, however, bope to modify its use. Sale may be cranky but he is on to some thing. The Luddites were opposed to "all Machinery hurtful to Commonality". For all its problems of definition, that has a certain moral force. But that raises a question which Sale is too much of a libertarian to address: whether governments should restrain technology in defence of society, as they are beginning to in defence of the environment. It seems a tricky proposition, particularly as the revolutionary effects of the computer will eventually play themselves out, as did those of the steam

That leaves Sale's prescription for individuals: scrutinise any new technology for possible harm, and if need be reject it. For most of us, already enslaved by the computer, that is not an option. It is not a bad rule of thumb all the same.

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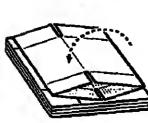
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A clue as to why growth in Japan

From Mr Brian Reading. Sir, Your article on Japan'a remarkable first quarter gross domestic product growth missed one important factor ("Japan's economic recovery a miracle or a mirage?", June

leaped ahead

20). The Economic Planning Agency figures are not adjusted for the number of days in the quarter. Reuters, following an EPA press conference on June 18, reported that "the EPA also said the fact that 1996 is a leap year helped push up GDP in the first quarter", and "the extra day contributed to 0.5 per cent of the total". But the total probably referred to 1996 as a

There were 60 working days in Japan in the first quarter. after allowing for regular national holidays (the effects of which normal seasonal adjustments will capture). Had it not been leap year there would have been 59 working

The extra day thus added 1.7 per cent to first quarter output (or 0.4 per cent to the year's output). If this is correct, more than half the first quarter's 3 per cent growth was due to leap year. The remaining 1.3 per cent, or 5.3 per cent at an annual rate, is still rapid but not surprisingly so. The much quoted 12.7 per cent annual rate rise assumes there is a leap day in every quarter of the year.

Brian Reading, 83, Shakespeare Tower, Barbican. London ECZY 8DR,

CORRECTION Gideon Nellen

Mr Gideon Nellen's letter, published on June 22/28, should have read that the "scale of under-charging (of landing fees at Heathrow – and hence the subsidy to airlines] has been estimated at £250m a

Linking trade to human rights

·LETTERS TO THE EDITOR

We are keen to encourage letters from readers around the world. Letters may be fared to +44.171-873 5538 (please set far. to 'fine'). e-mail: letters editor eff.com Translation may be available for letters written in the main international languages.

Number One Southwark Bridge London SEI 9HL

From Ms Olivia Q. Swaak-Goldman. Sir, In your editorial "Bonn in the China shop" (June 26) you assert that linking trade privileges to human rights violations is counterproductive and that, on the contrary, "trade and the increasing prosperity that comes with it can be a civilising influence". This is just the sort of argument human rights organisations around the globe have successfully attempted to counter. It is true that concern over human rights can have a negative effect on trade relations, as exemplified by the current debacle involving

China - in the first instance

involving the US by way of

German government. But

From Mr David Peterson.

Bosing Aircraft, and now the

arguments for de-linking trade

and human rights should be justified on the basis of pure economics and not the skewed argument that linkage is not effective. If it is true that the linkage

is less effective than desired. that is because only a handful of states attempt to make it and repressive states are free to turn to less demanding partners for their trade. Thus, the fact that the linkage is made by only a few countries and is therefore not as effective as it could be should not be used as an argument against making the linkage at all. The argument that de-linking trade and human rights actually leads to an

improvement in buman rights is, in addition to its neo-colonial tone, inaccurate. The well-respected human rights organisation Human

Rights Watch, in its 1995 World Report, came to just the opposite conclusion. It found that the de-linking of these issues led to a marked worsening of human rights conditions. One need only think of oil-rich, and therefore trade-rich, Nigeria and its execution of minority rights leaders last November to

provide a ready example. If western governments choose not to risk short-term economic interests in the name of human rights and democracy that is their decision. But it should be justified on that basis alone. not on the illusory argument that the linkage is ineffective.

Olivia Q. Swaak-Goldman, Europe Institute, University of Leiden Netherlands

Harmful constraints of a gold standard

Sir, Running throughout Michael Prowse's "The golden dream" (June 24), his fanciful history of the gold standard and the role that advocates of its reinstatement would like it to play in relation to the fiscal and monetary tools of a global economy already wrecked on deflationary madness, were a number of comments that captured the real appeal that the precious metal has in the eyes of the statist reactionaries whom Prowse mis-characterises as conservatives".

The return to gold would establish a "powerful check against governments' desire to pursue inflationary policies". Prowse writes, the term "inflationary" being the key that unlocks the door.

The gold brigade wants us to believe that the Group of Seven economies can be

returned to higher rates of growth through a magical elixir that combines one part radically lower taxes (often including the flat-taxers' call for zero taxation on returns to financial capital), and one part re-linking currencies to gold.

Thus, they would tie

government's fiscal and

monetary hands, preventing it from adopting Keynesian-type spending programmes. particularly on social account. For spending on social account would be inflationary, these keepers of the financial altar complain. That is, it would benefit the wrong class of interests, while putting the value of financial assets at risk. What more devious scheme could one devise to ensure that government expenditures do not get squandered on the wrong class of citizenry, than to equate

the dread "I"-word, even as the prices of financial assets soar to the heavens? "The gold standard, with its

general regardlessness of social detail, is an essential emblem of those who sit in the top tier of the machine." Thus wrote Keynes about the transparent motivation of another bout with rentier madness, earlier this century.

What else are the Maastricht treaty'e fiscal constraints, the US Federal Reserve's obsession with NAIRU (non-inflationary rate of unemployment), and . the Right's call for a return to gold, but the subordination of the state and civil society to the sort of deflationary regime demanded by global capital markets?

David Peterson, 9401 S Springfield. Illinois 60805, US

Objection required in the cause of consistency

their material well-being with

From Mr Peter Cane. Sir, Gender does not determine an accountant's accountancy ability, therefore - argues Ms Victoria Andrews (Letters, June 18) - Ms Shella Martins should not be

Britain's leading woman accountant".

Well, neither nationality nor geographical location nor, indeed, title, nor name, fixes such ability, so in all for consistency, Ms Andrews should also have objected to

the "Britain", the "Ms", the "Sheila" and the "Martins".

Peter Cave, 17 The Mount, Hampstead, London NW3 6SZ.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday June 27 1996

Death in Dhahran

military housing complex in Dbahran, Saudi Arabia, is the worst terrorist attack on US forces abroad since the destruction of the Marine barracks in Beirut in 1983. The death toll happily is much smaller than on that occasion, but the political implications are potentially much more serious. The Beirut catastrophe led swiftly to the withdrawal of US troops from Lebanon and the tacit recognition of that country as a Syrian sphere of influence. That was serious but in retrospect can be seen as correcting an aberra-tion in US policy. Contrary to President Ronald Reagan's rhetoric at the time, no vital American or western interest was at stake. Saudi Arabia, by contrast, is crucial to the security of western oil supplies and to US influence in the whole Guif region. The Gulf war could not have been fought without Saudi co-operation, and was fought as much to ensure the kingdom's long-term security as to liberate Kuwait. There could be no more direct challenge to American power than a murderous attack on US forces in the heart of the Saudi

Tuesday night's explosion at a

oil-producing region. Withdrawal from Saudi Arabia is an option no US president would seriously con-The Saudi rulers have been glad to keep a western (mainly USj military presence in the country since the war, to make it clear to any potential aggressor, for instance Iran, that western powers are still ready to come to their defence whenever necessary. But they have also been anxious to keep it discreet, knowing it is unpopular within the kingdom. The Dhahran explosion, following the bombing of a Saudi National Guard training centre in Riyadh last November, confirms that all

too clearly.
The Sandis would like to believe this latest attack is the work of Iran, stirring up trouble among the Shia inhabitants of the king-dom's eastern province. For months after the Riyadh bombing they insisted it was an external affair. But last month four Saudi nationals were beheaded after confessing to that crime. They were not Shia Moslems and had nothing to do with Iran. They were militant memhers of the ultra-orthodox Wahhabi movement from which the Saudi state itself derives. And three of them had seen service fighting communism

Only President Ezer Weizman pursuing an Israeli idée fixe, was yesterday blaming Iran for the Dhahran attack. The more likely, and less comfortable, explanation is that Saudi Arabia faces a highly organised terrorist movement formed by people who condemn the regime for betraying its own origins. Such a movement will not be bought off with small gestures of leniency or liberalisation. Nor. however, will it ha easily repressed indeed, repression will provide it with martyrs and so help it undermine the regime's

Sandi Arabia is almost as unlikely to succumb to an Islamic revolution like Iran as it is to gobhle up one of its small neighbours like Iraq. But over time it may be no better able than either of those countries to sustain the weight of being the bulwark of western interests in a hostile region. Western governments cannot and should not turn their backs on the kingdom. But they would be well advised to limit their exposure Britain's legal challenge over the EU's legislation setting a maximum 48-hour working week could backfire, warns Lionel Barber

Own goal over extra time

war over the safety of British beef, the UK to cross swords with the rest of the European Union again - this time over the 48-hour working week.

in the next month, a Portuguese judge at the European Court of Justice in Luxembourg is expected to rule on the UK government's challenge to the EU's directive setting a maximum 48-hour working week.

maximum 48-hour working week.

The narrow legal issue is whether Brussels can use health and safety legislation to push through rules on working conditions hy majority voting. But the broader debate is ahout the regulation of labour markets in Europe – an increasingly polarised issue in the EU.

At one extreme stands Britain.

At one extreme stands Britain, seeing itself as an offshore enter-prise centre, determined to insulate its economy against costly, meddle-some EU legislation. At the other stand the continental economies, eager to improve global competi-tiveness but also determined to pre-serve minimum labour standards in

the single European market.
The origins of the dispute go back to 1989 when President François Mitterrand, celebrating the 200th anniversary of the French revolu-tion and universal human rights. hit upon the idea of a new "social Europe" to compensate for the dislocation caused by creating the new

The French crusade galvanised the European Commission in Brus-sels. Mr Jacques Delors, then president of the European Commission, and Ms Vasso Papandreou, the activist Greek social policy comm sioner, produced almost 50 social policy initiatives, one being tha directive on working time.

The UK Conservative government saw the fresh burst of EU social legislation as a reversal for its success in curbing trade union power in the 1980s. Such concerns led directly to Mr John Major's insistence in 1991 on an opt-out of the Maastricht treaty's social protocol. The final version of the working

ment on the 48-hour working week prompted the most extraordinary ministerial decision of Mr John Major's premiership. It was an episode which defined vividly the unprecedented hostility which the working time

directive has aroused within the

ance, the cabinet's European policy committee decided that, if the court

ruled against it, the government

would simply defy the judges' deci-

sion. It would refuse to translate

the provisions of the directive into

against such a course were stunned

that a Conservative administration

first flush of the so-called beef war

The few ministers who argued

domestic legislation.

senior ranks of the government.

few weeks ago the European Court of Jus-tice's impending judg-ment on the 48-hour

or reverso

time directive was agreed only in November 1993. It obliges the UK for the first time to introduce laws giving mandatory rest breaks after six consecutive hours; a minimum daily rest period of 11 hours; at least one day off a week; no more than eight hours a shift on average for night work; and four weeks'

"The directive was social engineering at its worst," says Mr Zygmund Tyskiewicz, secretary general of Unice, the European employers' federation. "It was completely divorced from reality."

annual paid holiday.

However, the UK fought a suc-cessful campaign to weaken the legislation and make it much less intrusive. It won exemptions for workers in air, rail, road, sea, inland waterways and lake transport businesses. Also exempted were junior doctors and priests. A clause banning longer working hours for "economic reasons" fell because of objections from the bakery and newspaper industries.

In addition to these exemptions, the 48-hour working week is virtually voluntary. Employers can nego-tiate with individual employees to encourage them to work longer hours. And the UK government secured a grace period of seven years, delaying the imposition of the maximum working week until November 2003 at the earliest.

Yet despite these concessions, the UK abstained from the final ministerial agreement in November 1993 going to challenge the directive in the European Court, "It looked like bad faith," says a Commission official. "The British negotiated the best available deal with their partners in Europe, but then for domestic political reasons announced they were going to the Court."

Not so, say the British. Their concern is that the working-time directive was agreed under Article 118a of the Single European Act. This allows health and safety legislation to be passed by majority voting in the decision-taking Council of Ministers. To suspicious British eyes, it looked like a ruse to circumvent the UK's social policy opt-out.

British fears grew this year after an initial European Court opinion and promptly announced it was from the French advocate general.

He argued that health and safety issues could not be defined in terms of factory accidents or bad vibrations from video display units: "Health is not just a state of physical well-being, it is mental and social, and does not consist of just being free of sickness or infirmity."

And here is the rub for the UK government. If its legal challenge fails, the highest court in the Union will bave endorsed a similarly broad interpretation of health and safety and "working conditions". The result might be to encourage the Commission to bring forward more social legislation under the same provisions - all because of a plece of legislation which many believe would have bad minimal impact on working lives.

Shares in distress

Those who bought shares in sive modifications for safety rea-Eurotunnel should have known sons. As a result, the company is the risks. It was one of the most ambitious civil engineering projects ever undertaken; and there were many precedents to suggest

that costs might exceed estimates. So what have sharehelders to complain about, as they crowd into the company's annual meetn the Palais Paris today, ready to defeat their board with sacks full of proxy votes? French investors, who hold about 70 per cent of the equity, are angry because, after beavy losses, they now face the prospect of ceding a large part of their equity to Eurotunnel's creditor banks.

Although a deal has not yet been reached, it seems likely that the 225 banks will agree to exchange some of the £8.8bn which they are owed for shares, diluting existing shares by per-

haps 50 per cent. Shareholders' distress is at least understandable, for Eurotunnel is no ordinary company. It was a grand, long term project, blessed by the prime minister of England and the president of France. For private investors a bargain was implied by which the authorities would build high speed rail links, and provide revenue from rail services. This support has fallen short of expectations, while the authorities have required the comnany to meet the costs of exten-

sons. As a result, the company is unable to pay the interest on its debt, and the value of its shares, if any is left, depends on what deal can be struck with the creditors. However, French shareholders have discovered a desperate weapon. By threatening to frustrate the deal they raise the specmost unwelcome to the banks, not

least because of the complexity and uncertain outcome of French insolvency procedures. So although equity holders would usually expect to assume the residual risk, the proposed structure may allow them to share the pain with the banks. In the pecu-liar circumstances of Eurotunnel this may be fair, since the banks recognised an element of risk in the interest rate they were charging up until September, when pay ments ceased. And if the the banks hold equity instead of debt, the present shareholders will have

early next century. Meanwhile, the UK government could help the process a little by extending the franchise, as France has requested, from the present 57 years to 99. This would be a costless way of recognising the enduring benefits which this private sector project has conferred

a better chance of getting at least

some return on their investment

Reluctant step back from the brink

Philip Stephens on how the UK government came close to delying the European Court of Justice

at the end of May. All but a handful of cabinet ministers were present. The ministers were told that the European Court would soon deliver a final judgment on the government's case that the directive should never have been tabled under the rubric of the EU's bealth

could contemplate what would be a and safety provisions. The use by the Brussels Commisclear breach of British as well as sion of that route had allowed European law. But such was the anger at the prospect of losing the other EU states to outvote Britain in the Council of Ministers, despite battle to insulate the UK from Europe's social legislation, it was the UK'e opt-out from the social chapter of the Maastricht treaty. not until they reconvened on the The ministers were told the odds eve of last weekend's Florence sumwere that the court would endorse mit that the ministers backed down in the face of a stark warning from the preliminary ruling of the court's advocate general which had rejected the London government's legal challenge. They were reminded that the World Health Whitehall's law officers.
The first meeting, of the cabinet committee on defence and overseas policy (OPD), took place during the

employment conditions in its analyses of public health. A range of options was then con-

sidered. Ministers could bite their collective lip and prepare the necessary legislation. After all, during negotiations two years ago, Mrs Gillian Shephard, the then employment secretary, had succeeded in removing the directive's most restrictive provisions.

Alternatively, they could seek to defer the issue until beyond the general election by delaying the preparation of legislation. In the meantime, the government could use the intergovernmental conference on the future of the EU to seek treaty changes which would close the health and safety loophole. If it was fortunate, such an amendment might apply retroactively. But Mr Major had just announced

convince interested parties that a

moderately industrial nation

industries together. "The founy.

thing is, they all agree. But we are

a consensus democracy and the

consensus also is that they don't.

want to do anything about it." Fokker has orders which it could

meet, and other European aircraft

makers are seeking to spend \$1:1bm on developing a similar sized jet to its 79 seater. Still, whatever the

should keep its high-tech

the EU ban on exports of Britisb beef. The mood was not for compromise. Several ministers spoke in favour of open defiance. There are some conflicts in the accounts of individual positions. But there is no dispute that the minority in favour of upholding the law was heavily outgunned by an alliance of the cabinet's Eurosceptics and traditional moderates. More than one supported a suggestion that the non-cooperation policy over beef should be extended to cover a successful resolution of the working time issue. One minister thought

remarked that "swords had been glinting in the sun". Mr Major shared the anger. He had negotiated Britain's social chapter opt-out. He has always con-

the atmosphere "crazy". Another

sidered that the opt-out included assurances from the other beads of state that they would not seek to chromwent it. In his eyes, they now stand accused of a grave breach of

The decision, bowever, provoked visible alarm among the law officers. They reported that such open defiance would inevitably be challenged in the British courts. Just as certainly, the government would be

By last week, they bad stepped up the attack. A briefing note sent to ministers ahead of the second meeting warned that the legal challenge might extend beyond the government. Individual ministers might be held liable by the courts for deliberately denying public sec-

tor workers their rights.

The committee retreated, deciding instead on the strategy of delay. Implementation would have to wait until after the election. In the interim, Mr Major would

demand changes to the treaty. It is not clear, bowever, that the government is yet off the legal hook. It has had ample time to prepare the necessary legislation. Some of its legal advisers believe it could yet be successfully sued for deliberate delay. Ministers are now praying that, against the odds, the court will spring a surprise and rule in the government's favour.

A debt stand-off

Countries which are struggling to pay off mountains of official debt do not have many things to look forward to; but this week's Group of Seven summit was one of them. After a year of talking about helping debtor nations to grow out of debt, the hope was that leaders assembled in Lyons would at last translate fine words into action. Almost everyone now accepts

that some countries are so indebted that they cannot hope to reduce their debt to sustainable level without some extra help from official donors. This fact alone represents a moral victory for heavily indebted nations, an the non-governental-organisations which have lobbied on their behalf. But the G7 leaders are still far from resolving differences over who should pay for the support,

To address the problem adequately the World Bank, individual donor governments and the IMF need to play their part. To the World Bank's credit, its piece of the puzzle has recently fallen into place, with the board agreeing informally to allocate \$500m (£333.3m) to the debt relief initiative this year and \$200m each year

thereafter. It has been trickier to reach agreement on the second strand of the programme. This is because the hilateral creditors - as represented by the Paris Club - have and agree to the former.

already taken some modest steps to write off developing country debt. They are willing to concede further debt-write-downs, but only after the multilateral agencies have agreed to do their bit.

So far, so hopeful. But a stand-off between Germany and the rest of the G7 over how to finance the IMF's slice of the package may yet put a comprehensive approach to debt reduction out of reach.

The IMF wants to sell a fraction of its \$40bn gold reserves to finance its contribution to the debt effort, and put its existing concessional lending facility on a permanent footing. The German Chancellor, Helmut Kohl, will have none of it, believing that it would set a precedent for using gold for any number of good, and not so good causes, that the US might want to promote in future.

The IMF'e gold is an outdated, and under-utilised, resource which could and should be put to better use. One can sympathise with Mr Kohl's concerns about future sales. But the answer is to judge each request on the merits and realities of the case. The reality of this case is that, although the Germans say they would be willing to contribute more money to help the IMF help debtor nations to help themselves, for the other governments, it is gold sales or nothing. Mr Kohl must swallow his pride

· OBSERVER ·

House and Garden

Sir Pimothy Garden, appointed yesterday as the new director of Chatham House, the fireign affairs think tank, has a tough task shead. The Royal Institute of International Affairs, as it is formally called, faces strategic and financial questions only slightly less perplaying than those of Bosola or Russia addressed in its

eminar rooms. Sir Laurence Martin, who retires as director at the end of the year, was confronted with the budget predicament when he book up the post six years ago. His pradecessor, Admiral Sir James Eberlé had been known as the Red Admiral for his enthusiasm for Gorbachev and detente, slightly ahead of the game by western governments'

standards. However Str Laurence was heard to remark, in his first days in the job, "I didn't realise the 'Red' in 'Red Admiral' referred to the colour of the ink on the belance sheet". Sir Timothy will face a similar task of juggling resources at a point when the think-tank's main

China - are at their most thought provoking. Still, he has the credentials. having spent much of his life straddling the worlds of defence and policymaking. Former Royal

subjects - such as the future of

Eastern Europe or relations with

Air Force pilot and Whitehall policy adviser, he was at one point responsible for the long term budget and force planning for all three services, and involved in the retrenchment after the end of the Cold War. May come in handy,

Organisation specifically includes

Fokker's musical Willem van Kooten, the Netherlands' biggest independent music publisher, is familiar with life on the airwayes. The next challenge is to refamiliarise maker, with being airborne.

The man who brought the world seminal 1960s and 1970s stuff such as Golden Earring and Venus, said yesterday he was trying to recruit banks and industrial partners to save the entermise. Potential allies include Aalberts

and Internatio-Miller, two Dutch groups with links to the transportbusiness, as well as Stork, which is contemplating a purchase of Fokker's support services. He acknowledges he is just "a

small guy", but seems to want to be seen as "the Dutch Richard Branson." Better known in the Netherlands by a now rather unfortunate tag - "Mr 5 per cent" - Van Kooten has taken stakes of that size in ventures such as a sports TV channel which launches. in August, a holding he has already sold to the Telegrasi newspaper group.

receivers might have in mind, a per cent of Fokker would be a big bite for the former disc jockey. KIO's IOU

■ The Kuwait investment Office is finding that some of its Republican friends in the US, its staunchest allies in the Gulf War, are sounding pretty aggrieved. The accusation? That Kuwait is not sufficiently grateful to its saviours. · Former officials in the Reagan and Bush administration have lobbied a House subcommittee into-

looking at the question of Kuwaiti business practices "relating to the. financial and commercial treatment of US persons" The subcommittee will look into

the sale of facilities owned by Spanish packaging group Sarrio to the KIO for \$400m in 1991. The group alleges that the KIO has not paid in full. Richard Hass, top national security aide for the Middle East in the Bush White House, is on Sarrio's international

advisory committee. Kenneth Adelman, former chief at the Arms Control and Disarmament Agency, is the advisory committee's chairman. Texas congressmen are also complaining about the loss of a valuable power contract by the Texas-based Wing group, which bas on its board Lt. General Thomas Kelly, Pentagon spokesman during the war. Let's hope the subcommittee sheds light on whether there is substance to the complaints, or whether this is a storm kicked up by the aides on behalf of their corporate friends. Whichever, the KIO will no doubt take the deliberations seriously. Future military assistance, and the favourable tax treatment received by the KIO, could be in the

Wagner's ring M Obviously a marriage MAID in heaven. Dan Wagner, chief executive of the on-line information service, gave his fiancée Susie Newall 400,000 ordinary 1p shares (a prezzy of £1.12m at the end of yesterday). All very touching - and no doubt Newall will smile more sweetly than the curmudgeonly analysts who point out that MAID has yet to turn in a profit. Not a good precedent to set, though - just extra money that could go into the pockets of the lawyers drawing up pre-marital agreements.

Financial Times

100 years ago

A Third Candidate Talked Of The chances of a success of a third Presidential candidate in the United States are being put forward more strenuously than heretofore by those who will vote neither for Major McKinley nor for the Free Silver candidate the Democrats appear likely to nominate at Chicago. A leading Democrat said yesterday: "The chance in adopting a free silver plank, for there are many Republicans so opposed to Major McKinley that they would have been willing to vote for a third-term Democrat in the person of Mr. Cleveland backed by a sound money plank in his platform."

50 years ago

Demand For Copper There has been more disagreement since the beginning of the year over the outlook for copper than for perhaps any other commodity. There is a shortage of supplies which is being accentuated by certain artificial factors. For instance, owing to labour shortage, fabricators now tend to ask for several shapes and sizes from their suppliers. Stocks should be correspondingly increased to cater for these varying requirements.



FINANCIAL TIMES

Thursday June 27 1996



Power struggle over 'conditional' resignation Astra US

Karadzic threatens to disrupt Bosnia elections

Balkans Correspondent, and Paul Wood in Pale

Mr Radovan Karadzic, the Bosnian Serb leader wanted on war crimes charges, yesterday drastically raised the stakes in the struggle over whether he would step down from power. Mr Karadzic offered to resign

only if the international community met a series of conditions for the recognition of his mini-state, Republika Srpska. But he made clear that he would stand in the Bosnian elections if his demands were not met.

Seen as a key obstacle to free elections in Bosnia, Mr Karadzic signed a resignation letter at dawn after a marathon session of the Bosnian Serb leadership, Bosnian Serb officials in Pale, Mr Karadzic's stronghold, said the letter was seot to the government of Serb-led Yugoslavia and also was intended for Mr Carl Bildt, chief ioternational civilian

VW halts

expansion

Continued from Page 1

allow any state aid in the car

sector unless it was strictly necessary to compensate for prob-lems in disadvantaged regions.

delayed a decisioo oo the case.

advice of the Brussels competition directorate to cut the aid.

Volkswagen said it "considers

the investment in Saxony clearly

as new investment, e judgment

that was shared until recently

even by EU experts". It has shelved the plans "with immedi-

At Mosel, VW is already produ-

cing its Golf series car, and had

hoped to expand the site between

1997 and 1999 to 750 cars a day.

Canacity at the Chemnitz plant was also to be increased at the

same time through a new engine

Saudi bomb

he had spoken to King Fahd, the

"expressed his deep regret at our loss and his determination to find

Mr Warren Christopher, US

Secretary of State, vesterday interrupted his tour of the Middle

East to revive Arab-Israeli peace talks and flew to Saudi Arabia to

show support for US troops and

survey the damage at the air

hase in Khohar, oear Dhahran,

production facility.

Continued from Page 1

those responsible.

But Mr Bildt's office last night had not yet received the letter. The timetable for a response is tight because the annual meeting of the Serbian Democratic Party, the Bosnian Serb ruling party, which will draw up an electoral list meets tomorrow.

It was unlikely, however, that the international community would accept the conditions. which violate the Dayton peace plan for Bosnia. Under the plan, suspected war criminals indicted hy the UN tribunal cannot stand in elections or hold public office and must be handed over to The

The letter appeared another manoeuvre orchestrated in order to deflect intense pressure. International mediators have threatened to reimpose sanctions co Serbia unless Mr Karadzic disappears from the political scene.
Diplomats, behind the sceoes, have set a deadline of July 1 for Mr Karadzic to stand down to enable the Bosnian elections to

Western mediators, in particular the US, are anxious to go ahead with elections on September 14 in an effort to stick to the timetable envisaged under the Dayton accords.

But members of the Moslem-led Bosnian government have creeted a problem by indicating that they would boycott elections if Mr Karadzic and other indicted war criminals remain at large in poll seen as a crucial test for Bosnia's future.

In a violation of the Dayton pact, Mr Karadzic insisted that Brcko, the north-eastern town at the mouth of the strategic Serb corridor, remain in Serb hands. Leaders of Serbia, Croatia and Bosnia agreed last November that the status of the strategic town would be decided by international arbitration at the end of the year-long plan. The deal on Brcko enabled western mediators to secure Moslem endorsement of the Dayton plan which would

Malaysia reforms stock exchange to challenge Singapore

The two German commissioners, Mr Martin Bangemann and Mrs Monika Wulf-Mathies, are Malaysia is to allow comunderstood last week to have panies from other countries to list shares on its main stock But they are thought this week exchange in a move designed to to have been unable to persuade challenge Singapore as the other commissioners to reject the

region's financial hub. Mr Munir Majid, chairman of Malaysie's Securities Commission, said yesterday that he hoped the initiative would help Lumpur Stock Exchange, the third higgest in Asia after Tokyo and Hong Kong in terms of mar-

ket capitalisation. He did not indicate when the liberalisation would take effect bnt said that it would be a phased reform. Foreign compa-nies which were "promoted and controlled" by Malaysians would be the first to list on the

The development follows comments earlier this week by Mr Ron Sommer, chairman of Deutcoms operator in Europe, that the company was "thinking intensively" of a listing in Asia after privatisation in Germany

Mr Sommer did not say whether Malaysia was being con-sidered, but Deutsche Telekom's deal to buy 21 per cent of Tech-nology Resources Industries, a prominent local telecoms company, could make the German company a candidate for a listing. A Malaysian listing would eocourage foreign investors to

crential terms evailable to local companies in the domestic mar-

ket, analysts said. If Deutsche Telekom secured a listing on the Malaysia exchange it would bring immense prestige to the bourse and help attract international portfolio investors

In addition, companies with a secondary listing in Malaysia would be more likely to choose Kuala Lumpur as a regional headquarters - a role now more often filled by neighbouring Singapore, Singapore already allows foreign listings.

There would be other important spin-offs for Malaysia, say

Mr Neil Saker, senior regional economist at Crosby Securities in Singapore, said: "Malaysia is clearly hoping that foreign firms will be more committed [to the country] and transfer the type of technology that the seventh [five-year economic] plan

a proposal to the finance minis try to establish an over-the counter (OTC) trading market for domestic high-technology mnanies. Such a market wonle provide an alternative source of pital for companies too small to list on the stock exchange's second board.

He said an OTC market should not replace or compete with cur-rent forms of financing for hightechnology industries such as

chief fired after sexual harassment inquiry

Astra, the fast-growing Swedish pharmaceuticals group, yesterday fired the chief executive of its US operations. It laid the blame for a series of sexual ment allegations firmly at his door.

Mr Hakan Mogren, Astra group Mr Hakan Mogren, Astra group chief executive, said Mr Lars Bildman, head of Astra USA for 15 years, had been fired without compensation following an internal investigation into the allegations. The investigation showed that Mr Bildman had "abused his position", Mr Mogren said, and that he had developed an "unscceptable leadership style". It had also found evidence that he had used company funds worth some US\$2m for private spending. One other senior executive at

Astra USA was also fired and a third agreed to leave, along with one Astra parent company executive. But Mr Mogren denied any widespread fault within the company or its corporate culture.

The main public allegations against Astra were levelled by Business Week magazine which cited e dozen cases where women claimed they were fondled or solicited for sexual favours by Mr Bildman or other executives between 1991 and 1994.

Astra is one of several foreign companies to become embroiled in sexual harassment cases in the US. The US arm of Mitsubishi Motors of Japan is facing a class action suit against it by the Equal Employment Opportunities Commission alleging widespread harassment of women workers, The EEOC is also investigating the Astra case.

But Astra said its problems were the result of "a single man who abused his power". It said it was co-operating fully with the EEOC and any other outside investigation. Astra is facing at least three lawsuits brought against it by former employees

alleging sexual harassment.
Astra was careful not to accuse
Mr Bildman - who was spended to May when the allegations were first made by former Astra USA employees directly of sexual harassment. Lawyers for Mr Bildman have said the allegations against him

are totally false. Astra said: "The investigation found that Mr Bildman exhibited pany functions, primarily internal sales meetings beld off com pany premises. Such conduct is inexcusable for any senior execu-

tive of our company."
It added that Mr Bildman had used company money for renova tions of his home and holiday travel worth around 175\$2m Mr Mogren denied that senior group management knew of the alleged harassment or financial abuse before being alerted by

Astra's share price rose SKr6 yesterday to Skr293.

THE LEX COLUMN Crude politics

The second bombing in Saudi Arabia in eight months is a powerful reminder that the regime's stability cannot be taken for granted. Nor is Sandi Arabia the only worry in the region; with serious tension in Bahrain and an unpredictable new government in Israel, the oil market is growing understandably nervous that the temperature in the Middle East is rising Both the Iranian revolution and the Gulf war sent oil prices sky-high; serious disruption to Saudia Arabian supplies could send them higher still.

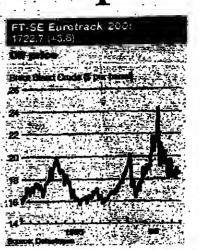
But such an outcome remains very unlikely. The Saudi Arabian government's grip on power looks formida-ble Morsover, whoever runs the coun-try will ultimately be as dependent on oil revenues as the West is on oil - so long, that is, as complete chaos or the most extreme kind of fundamentalist regime is avoided:

Frightening as these worst-case out-comes may sound, the much bigger risk for investors is not that the coun-try will collapse but that its oil strat-egy will change – for instance, if the relatively unknown Prince Abdullah residency mixing. Find a statutal succeeds the sickly King Fahd. In theory, the country could either cut production back sharply to push the oil price up or step production up and hope additional revenues offset the

nevitable price collapse.
The fact that neither is obviously in the country's long-term financial interest does not necessarily mean it might not give one a try — especially given the pressing need for cash to keep the population sweet. The snag for investors, of course, is that such a change of tack is impossible to present the city of the course. empt, since it could send the oil price in either direction.

Such is the controversy swirling around Mediaset, Mr Silvio Berlusconi's television empire, that many investors will give its flotation a miss. But some may still be tempted on the theory that shares sold in unpromis-ing circumstances will come cheap. Indeed, an initial glance suggests that they are. Goldman Sachs, one of the few independent brokers with a fore-cast, predicts L450 earnings per share this year. At the mid-point of the selling range, the price/earnings multiple is 15. Comparable European TV stocks, Britain's Carlton Communications and France's TF1, trade on multiples of 18-19.

However, to make a fair comparison, two adjustments should be made. The first stems from Mediaset's curious policy of amortising television rights over several years rather than chang-



ing them to profits; the secon because its tax rate is still below the standard 48 per cent rate. After such adjustments, Mediaset's prospective p/e rises to about 17 - only a touch below its peers.

Mediaset's aspirations in mobile communications give it an appeal that Cariton and TF1 lack, but its core TV business is under greater threat than theirs. If Italy's state-owned Rai is ini-vatised, restrictions limiting the amount of advertising it can air would probabilitie retained intensitying cumpetition would then cut both Mediaset's dominant share of ad revenue and the rates it could charge. Take into account the other rights - such as the tribulated investigations and Media. the judicial investigations into Medi-aset managers and the possibility that it may have to divest one of its channels - and the shares do not seem worth the punt

British Biotech

Biotechnology companies have to raise money well before they need it, so British Biotech is being pragmatic rather than greedy in launching a £143m (£218.8m) rights issue when itstill has 156m of each in the bank. Shareholders are hardly going to quibble: for a total outlay of £350m. since foundation they now own a com-

pany capitalised at over £1.5bn. Moreover, this is British Biotech's last fund raising. If it succeeds in getting its first two drugs to market in the next three years it will become highly profitable and able to finance future growth from cash flow and debt. H it falls, it will hardly be in a position to go back to shareholders -

nor would there be much point.
The odds on success are shortening all the time. Marimastat, its key anti-

regulatory approval to start late-stage clinical trials. There is growing evidence that it is effective against a whole range of cancers, which could propel it to peak sales of £1bn or more. The fact that the rights money will in part be used to build up a sales force for Marinastat in Europe and America is a testament to the management's confidence. And with compounds against pancreatitis, asthma, arthriti; and multiple sclerosis also unde: development, British Biotech is on the way to becoming e fully-fledged pharcenticals company. Even so, valuing the shares remains subjective: with analysts suggesting anythin from \$20 to more than £100, compare with a current price of £23.75. Having seen the price rise siz-fold in less that a year, investors should take up the rights and hang on.

Nuclear privatisation The price range for the Britisharmy sale is so wide the governme. might just as well not have bother, publishing one at all. That, of course reflects the unusually broad range, valuations being bandled around which in turn reflects the difficulty which in their research to distinct predicting future electricity price. The risks are certainly real. Is the then, an offering to be approach; with full protective ciothing?

Actually, it should give off a prewarm glow. Compare it with Retrack British Energy has less politis risk, its cash flow dividend cover-more generous and its balance shee? even lexer. On that basis, the decis looks obvious – especially if, as ma think, the shares could start life on,

even higher yield.
Of course, there are worries as With Railirack, there is less risk to the management will fritzer and shareholders' cash on grandiose necessity projects; British Energy has done nothing to dispet the impression that this is a real wory for the longer term. Moreover, while Railtrack's revennes are secure, British Evergy'e are valuerable to lower electricity prices. And prices are bound to come under pressure in the end, when real compe-tition is finally imposed on the mar-ket. Nonetheless, in the near term, the outlook looks reasonably benign - bet-

ter, certainly, than many fear.
These may not be shares to hold on to for life. But their half-life at least as investors get to grips with the scope for cutting the company's costs and gearing up its balance sheet -looks distinctly promising.

apply for all or some of the pref-FT WEATHER GUIDE

Europe today Scotland, Wales and eastern Ireland will be dry and sunny. England will have sunny spells with showers in the south. Cloud will

approach Ireland from the west in the afternoon. A weak disturbance will produce cloudy but dry conditions in the Benelux, Southern Germany, the Alps and France will be dry and sunny. The Iberian peninsula will have plenty of sunshine. Southern Scandinavia will be warm with sunny spells. Cloud will prevail in western disturbance will produce showers from the Ukraine, across the northern Balkans and into central Italy. The south-east editerranean will be hot and sunny.

Five-day forecast

The Iberian peninsula will remain surmy and warm. High pressure will promote dry and sunny conditions in Italy. South-east Europe will continue hot and sunny until kend when thunder showers will spread south-east across Turkey. The British Isles and the Benelux will be

TODAY'S TEMPERATURES

No other airline flies to more cities around the world. Lufthansa

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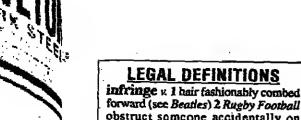
a new high flier.

Indonesia's state-owned IPTN celebrates its 20th auniversary with the debut at Indonesia Air Show '96 of the twin-engined N250, scheduled to enter commercial service next year.

The N250 is the world's only fly-by-wire regional nurbo-prop and, at 330 knots, one of the fastest. Its range is 800 miles and stretched versions with up to 72 sears are already under development. Key equipment includes landing gear supplied by Messier-Dowty (II Group's joint venture with SNECMA) and Dowty propellers and hydraulics - a package worth ove US\$200 million across the expected life of the programme. With our help, the N250 is a real high flier.

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COMPANIES & MARKETS

OTHE FINANCIAL TIMES LIMITED 1996

Thursday June 27 1996

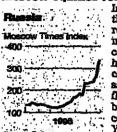


IN BRIEF

Holzmann warning lifts takeover rival

The flerce takeover battle between Philipp Holzmann and Hochtief, two of Germany's largest construction groups, appeared to move Hochtlef's way after Holzmann warned it would not pay a divi-dend for this year – just weeks after it cancelled its 1995 dividend. Page 16

Moscow equities reach fresh peak In Moscow, shares continued



their climb and reached a record as the Moscow Times index rose 17.42, or 5.4 per cent, to 337.89. The index has jumped about 90 per cent since mid May. Traders said western investors were flooding the market with buy orders amid growing confidence that Mr Boris Yeltsin, the Russian president, will win re-election in next Wednesday's second round poll. Page 36

A consortium linking Koninklijke PTT Nederland, the privatised Dutch telecommunications company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, Ireland's state-owned telecoms company. Page 18

Costain is in talks with a potential south-east Asian investor considering taking a large stake in the UK construction group. It called for its shares to be suspended after they fell 31p to 39p. Page 21

Companies in this leave

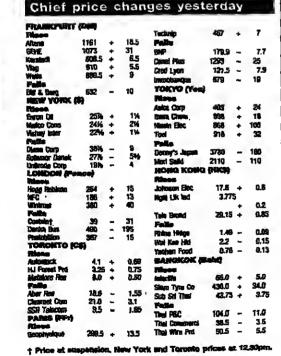
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Air Macau	4	Mayflower	
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Ashok Leyland	20		1
Astra	14		2
Audi	18	Microsoft	1
British Blottech	14, 15	Molson	1
British Energy	14	101-1-1-1-1-1	
CFF	16	Moulinex	1
CSM	18		
Cable & Wireless	7	Netia Telekom	1
Chrysler	7	New Holland	15, 1
Ctycle Petroleum	22	Nintendo	1
Cornvik	7	Nomera Research Inst	1
Costain	21	Offvetti	
Coutts Bank	1	Optus Vision	
Crusader	22	Pactel	1
Daewoo	7	Phillip Morris	3, 1
Daewoo Motor .	20	Placer Dome	1
Danka	21		2
Dickson Concepts	20	Qualer Oats	1
Dragonair	4		1
Flet	15, 18		1
First Capital Corp	20	SBC Communications	1
France Telécom		Stemens	
General Mills		Singapore Telecom	
General Motors	7	St George Bank	25
Harvey Nichols	22	Sumitomo	
Heineken	7	Telecom Eireenn	1
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Kellogg Kim Eng Kraft Freia Marabou

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Fiat to sell off New Holland stake

By Andrew Hill in Turin

Fiat, the Italian vehicle and industrial group, is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year. Mr Cesare Romiti, chairman,

told shareholders at the annual meeting in Turin the group would sell 30-40 per cent of New Holland, probably on the New York and Milan markets. The issue would "bring major

economic gains and a consider-able inflow of cash", although he did not specify the amount. Fiat also announced this week it was to set up a \$1bn multicurrency

British

Biotech

cash call

a big international pharmaceuti-

cal group. And Chiroscience said its first product, a painkiller for

arthritis patients, had reached

British Blotech's rights issue

will be the UK sector's biggest

fund-raising exercise. It follows a year in which the company's

share price has raced up from

less than 500p to a peak of £35.50

a month ago, after promising trial results for its oral cancer

drug, marimastat. Its shares fell

Chiroscience, which raised

"This is one of the first devel-

market from any company in the UK emerging pharmaceutical sector," said Lord Chilver, Chiro-

British Biotech said the

£143.4m raised by issuing 7.2m

new shares at £20.50 each would

enable it to finish developing

marimastat and the lexipafant

treatment for pancreatitis, and

to build European and North

British Biotech also announced

a pre-tax loss of £25.2m for

1995-96, down from £26.3m in

"The rights issue is an impor-

tent step for British Biotech in

achieving its objective of build-

ing a new international pharma-

ceutical company," said Dr Keith

McCullagh, chief executive. The

group has cash and investments

worth £66m. It does not expect to

seek more money from share-

holders before lexipafant and

Some analysts bad expected

British Biotech to wait until

when it had more data for mari-mastat, before a rights issue.

Mr James Noble, finance direc-

tor, denied tha company was

being unduly opportunistic in its timing, when the share price was

inflated by excitement about

British Biotech stands out

among UK rivals for the scale of

its ambition to be a leading

world pharmaceutical group.

Mr Noble said it envisaged an

eventual sales force of about 500.

Chiroscience, in contrast, "still intends to become a world-class

drug discovery and development

company, rather than a major

integrated pharmaceutical company", said Dr John Padfield, chief executive.

marimastat reach the market

shares closed up 1p at 433p.

science chairman.

5p to £23.75 yesterday.

Science Editor

the market

credit facility which would allow it to draw down loans at lower interest rates than at present over the next seven years. Fiat needs the financial flexibil-

ity to continue its expansion programme, which includes selling its new Palio "world car" in South America and later China, India and south-east Asia. "Our investments will be extremely broad in the coming years, so the money which should arrive from these sales could be used for this," Mr Romiti said.

Fiat has appointed Mediobanca, the Milan merchant bank, and Goldman Sachs of the US, to work on the New Holland sale. The subsidiary was formed in

1991 from the agricultural and earthmoving equipment interests of Ford of the US. Ford retained a minority stake which was bought out by Fiat in 1993.

New Holland, which is regis-tered in the Netherlands and has its headquarters in London, returned to profit in 1994 and now contributes about 10 par cent of Fiat group sales. Mr Romiti, who took over from Mr Gianni Agnelli as chairman in

would step down as chairman in June 1998, when he will be 75. Mr Agnelli's nepbew. Mr Gio-vanni Alberto Agnelli, who beads the Piaggio scooter group and is

a Fiat director, is tipped to take

February, also confirmed that be

trolled by the Agnelli family through the quoted holding com-panies Ifi and Ifil.

Fiat confirmed it suffered a decline in margins in the first quarter of 1996, when pre-tax profit slipped to L464bn (\$301.5m), against L606bn a year earlier. But Mr Romiti said the situation had improved and Fiat expected the full-year margin to be only slightly lower than 1995's 4.4 per cent. Full-year turnover is expected to be at least L80,000bn. against L75,692hn in 1995. Last year, Fiat announced a net profit of L2,147hn.

over, although be will still be in his mid-30s in 1996. Fiat is con-year", because of continued weak demand in Europe, and Italy in particular, the strengthening liva, and the slump in the important

Apart from confirming Mr Romiti as chairman and Mr Paolo Cantarella, previously bead of Fiat Auto, as chief executive, Fiat also elected four new directors: Mr Paolo Fresco, vice-president of General Electric of the US, Mr Gianfranco Gutty, chief executive of Generali, the Italian insurer, Mr Gabriele Galateri di Genola, chief executive of Ifil, and Mr Franck Ribood, chairman of Dan-

Mr Romiti told sharebolders

diversity.

about that."

operating profits rebound Brazilian market.

nearly FFr3bn (\$570m) after pro-visions of FFr2bn for a voluntary severance scheme and other

New York tractor float, Page 18

another option. Rockwell has just

disposed of its newspaper print-ing press business - another world leader - for \$500m. But Mr Beall is careful to deny that

Rockwell is joining the demerger fashion, or is uncomfortable with

'Most of us [in Rockwell] grew

up in a multiple business envi-ronment," he says. "We're a lot simpler oow than in the days

when we were making industrial

sewing machines and oilfield

valves. If we separated our aero-

space and automotive businesses

we'd be easier to understand -and that's all I'm going to say

The impression remains that

getting rid of the aerospace and

defence business, in its entirety at least, would go against the

grain. Some parts of the business.

Mr Beall concedes, might offer

scope for rationalisation if com-

bined with competitors. "But the

practical reality is that if I sold our rocket engine business to Lockheed Martin [the biggest US

defence company], what would they do to save money? They're

Nor does he accept the prevail-

ing wisdom that the technology

of defence has become so speci-

alised as to be commercially useless. "I think tha technological

flow from defence into commer-

cial markets is certainly still

important. We also operate our defence business in a commercial

way, with a lot of our managers

two-way process with us, more

Again, though, he qualifies his

position. "If we ever did lose lour

defence technology), we'd find

than with most companies.

ways to compensate."

not in that business."

By David Owen in Paris Air France yesterday reported its first annual operating profit of the 1990s. But the state-controlled carrier recorded a net loss of

Air France

labour measures.
The figures also excluded the results of Air France Europe, the carrier's domestic partner, which recorded a large operating loss. In an effort to address this. Air France Europe yesterday announced tha closure of 19 routes, with effect from October 27. It said this would enable it to improve its operating result by

about FFr350m. Air France Europe is also approaching a crucial stage in negotiations with its pilots over attempts to align their pay and conditions with those of their Air France counterparts: at present, Air France Europe pilots receive between 10 per cent and 15 per cent more.

Air France has said it would delay a planned merger of Air France Europe and its own European operations if the domestic pilots did not agree a remuneration package by the end of this month. The merger is set for April next year.

The net loss at Air France for the year to March 31 amounted to FFr2.87bn - against FFr467m in the corresponding 1994-95 period. The earlier figure was helped by FFr2.51bn in capital gains.

Turnover fell 1.8 per cent from FFr40.18bn to FFr39.44bn. The company said adverse currency fluctuations affected sales by about FFribn. It said the publicsector strikes that swept France in December 1995 resulted in a decline in revenues of FFr300m. The average number of employ-ees fell by nearly 2,000 to 36,484. The airlina's operating profit

a loss of FFr902m in 1994-95. Its pre-tax loss totalled FFr968m, against a FFr3.2bn loss, The net loss prior to restructuring provisions was FFr878m, compared with a FFr2.69bn loss. The 1994-95 financial period originally lasted 15 months

totalled FFr413m, compared with

because of a change in the company's year-end, but comparative figures have been taken from pro forma accounts covering April 1 1994 to March 31 1995. Air France Europe, the former Air Inter, reported a net loss of

FFr661.4m for the 15 months from January 1 1995 to March 31 1996 against a net profit of FFr20.9m in the 12 months of 1994.

The company attributed the deterioration to "social conflicts" and the effect of the opening of its domestic network to competition from other French airlines. Operating losses for 1995-96 totalled FFr549m.

Turnover for the 15 months to March 1996 was FFr13.6bn, compared with FFr11.7hn for 1994. The company said the number of passengers carried in the 1995 calendar year was down 7.5 per

cent compared with 1994. Fifteen of the 18 Air France Europe rootes to be closed are between France and cities in the UK, Spain and Portugal. The three internal French routes to be closed are from Paris to Nantes, to Toulon and to Perpig-

out whether the European Commission will allow it to receive the third and final tranche of a FFr20bn state aid package. A decision is expected in mid-July.

Other European airlines,

have complained that Air France is using state aid to fund cuts in fares. Air France bas also reached agreement with Airbus Industrie for the delivery of five Airhus A340-300s, originally

Rockwell chief dismisses talk of demerger but keeps his options open

A ccording to persistent rumours Rockwell International, the US manufacturer, is thinking of selling its defence business. To those with in £143m long memories, this might seem bizarre. If ever a company typi-fies what President Dwight Eisenhower called the military-industrial complex, it is Rock-

By Cave Cookson, This, after all, is the company which first put Americans into space, then on to the moon. If The UK biotechnology sector took two more steps towards maturity yesterday. British Biotech said it was seeking £143.4m (\$219.4m) in a one-for-eight rights issue to build the intrastructure needed to become Armageddon ever happened, America's bombs would be dropped from Rockwell aero-planes. Its intercontinental mis-

well electronics. But in these post-cold war days, the US defence industry is in a fever of amalgamation. As defence budgets have shrunk, Rockwell - like many in the industry - has changed shape. A decade ago, the Pentagon and Nasa, the space agency, accounted for nearly two-thirds of its business. The figure is now

siles would be steered by Rock-

around a quarter.

Mr Don Beall, Rockwell's chairman and chief executive, treats the speculation with studied ambiguity. The company's defence business, he says, is hig enough to stand alone. It also £40m in a share placement last month, said dexketoprofen, its arthritis drug, was launched in Spain this week by Ménarini, its Italian marketing partner. Its confers technological and other benefits on the company's other divisions.

"Having said that," be adds, we're very mindful of the consolidation going on in defence Chairmen are talking to chairmen all the time. If I ever thought there was a combination which would be a stronger business, we'd do it. It would probably not be within the structure of Rockwell as it is today."

As those with even longer memories may recall, Rockwell has not always been in the defence business. It began life making truck axles, and automotive components still account for a quarter of the company, with sales of more than \$3bn.

But that business, or parts of it, could also be for sale. "Automotive doesn't have to be an integral part [of Rockwell]," Mr Beall says. "If we ever felt it couldn't reach our long-term objectives, there are lots of alternatives."

So what is integral to Rockwell? Two businesses, it appears. First is factory antomation, which Rockwell entered in 1984 with the acquisition of Allen-Bradlay. With the addition 18 months ago of Reliance Electric,

A US defender large enough to fight for itself



Guarded secrets: Don Beall, Rockwell chief, is keeping his plans quiet

bought for \$1.6bn, it has consoli-dated its position as the biggest factory automation company in North America.

Second is its semiconductor business. Rockwell says it has 70 per cent of the world market for the chies which drive modems in personal computers and fax machines. With the explosion of the Internet, Rockwell expects sales to double this year to more than \$1.5bm. It has a \$1.2bm programme to increase capacity.

Acquisitions are planned. In automation, Mr Beall says, Rockwell's objective is to double reve

Selling businesses remains

nues to \$8bn by 2000. "We couldn't do it without another major acquisition or two. If we

just grew the present business, we would reach \$5.5bn or \$5bn. In Europe. I've knocked on a lot of doors. A lot of the businesses I'd like are owned by other people who want to keep them, and a lot are still family owned."

n part, this hedging is caused by the desire to leave options open, but it may have another aspect. Mr Beall became president of Rockwell at the age of 39, and has been chairman for the past eight iyears. Now 57, be has not decided when to retire. "But I don't think you'll see me bere when I'm 65. That would be

In other words, Rockwell in its present form is largely Mr Beall's creation, and in the foreseeable future he will be handing it on. The shape of the company at that point may simply not have been decided yet. It seems clear, though, that the decision when it comes will be mainly Mr Beall's.

Tony Jackson

Online satellite service set for Japan

By Michiyo Nekamoto in Tokyo and Louise Kehoe In San Francisco

Nintendo, Microsoft and Nomura Research Institute are launching an coline information service in Japan that will use a combination of satellite communications and standard telephone lines to deliver information and entertainment services to home com-

puters. The service, to begin by the middle of next year, aims to win a share of Japan's growing market for online information ser-

vices by combining sxisting Internet information with new entertainment services to be developed by Nintendo, one of the leading manufacturers of video game systems.

The joint venture, to be established in the fourth quarter of this year, will provide online services such as sports news, online shopping and entertainment using a TV broadcasting satellite system operated by St Giga, in which Nintendo owns a stake of just under 20 per cent.

More than 10m Japanese bomes are connected to the St Giga broadcasting satellite. Users of the new service will need a satellitte dish and tuner and a specially designed satellite modern installed in a PC.

"The PC is becoming a commu-nications tool," said Mr Bill Gates, chairman of Microsoft, the US software company. "I think the venture really draws on the strengths of all three compa-

The companies said the service would make the Internet more accessible in the home by provid-ing high-speed access. Currently, via modems linked to standard telephone lines but transmission rates are slow.

"It is very time-consuming to obtain graphics via the telephone line but dats on the Internet will increasingly involve graphics, says Mr Hironobu Sawake, analyst at Nikko Research Center. He said the advantage of this

system appeared to be that it could send graphics rapidly by using satellite broadcasting. In the US, Microsoft is working with Direct TV to develop a similar service that is scheduled to be launched early next year.

nan. Air France is waiting to find

including KLM of the Netherlands and Germany's Lufthansa,

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GROUP

COMPANIES AND FINANCE: EUROPE

Holzmann warning gives succour to Hochtief

One of Germany's fiercest takeover battles between two of the country's largest con-struction groups, Philipp Holzmann and Hochtief, appeared to move Hochtief's way yesterday after Holzmann warned it would not pay a dividend for this year - just weeks after it cancelled its 1995 dividend.

Holzmann recently reported surprise net losses of DM443m (\$289m) after it had to write down the value of several property investments.

A Loudon-based construction analyst said the group's continuing difficulties now meant that Deutsche Bank, which holds 25.8 per cent of the com-

"I think Deutsche Bank's preferred out would be for Hochtief to come in - subject to agreement from the cartel authorities," the analyst said. The Berlin-based cartel office is investigating Hochtief's proposed takeover and in an initial ruling rejected the idea, arguing that the merged group

otherwise very splintered construction market. The two sides are due to meet again in court in November. Another analyst specialising in construction companies who attended Holzmann's annual

general meeting in Frankfurt

would dominate Germany's

chief executive, said Holzmann faced "very difficult years" this

year and next. Hochtief already holds 24.9 per cent of Holzmann and has parked a further 10 per cent with Commerzbank, the leading German bank which is close to Hochtief, subject to a final ruling by the cartel office.

Holzmann's warnings come on the heel of other forecasts by leading German construc-tion groups which are considerably more optimistic.

Mr Hans-Peter Keitel, Hochtief's chief executive, said earlier this week that while it was too early to make forecasts for the full-year, new orders from outside Germany more

By Michael Lindemann in Bonn to Hochtief - would be increas- also fail to pay a dividend in than made up for a very investments worth DM536m, ingly inclined to see Hochtief 1997 after Mr Lothar Meyer, depressed German construction but Holzmann eventually decided to write down investtion market. Strabag, another leading couments worth DM458m. "There struction group, said yesterday are some more time-bombs

ticking away there," the anait expected a "moderate" increase in construction output lyst said. - the sector's equivalent of Holzmann said, meanwhile, sales - and a significant that results in the first five improvement of its operating months had been considerably results. Strabag's 1995 pre-tax profits fell to DM26m, down from DM82m a year earlier. Several analysts warned that part of Holzmann's continuing

difficulties had to do with its lack of rigour in writing down the value of its property invest-KPMG Deutsche Treuhand, the auditors who had valued

the investments, recommended

that the group write down

better than in the first three months, when construction projects had almost come to a standstill because of the bitterly cold winter in Germany. During the first five months

to May 31 construction output totalled DM4.6bn, 8 per cent lower than last year, while the group had booked new orders worth DM5.9bn, some 5 per cent more than in the equivalent period last year.

the main reason for renewing

the credit line and divesting

part of New Holland is to raise

money for further expansion in

of us is one of new develop-

ments," said Mr Romiti yester-

day. "That means starting new

initiatives, opening new mar-

kets, producing in areas - such

as south-east Asia, China and

India - where you can't sell

cars unless you manufacture

in the country itself, and

increasing our efforts in the

Mercosur [the south American

For Fiat, the disposal of a

minority stake in one of its

largest subsidiaries would

mark a change of tack com-

pared with last year's plan to

inject its chemicals and bio-

medical subsidiaries, headed

by Snia BPD, into the complex

planned merger between

Gemina, the investment com-

pany, and Ferrozzi Finanziaria, the holding company.

would have raised about L700bn for Fiat. Mr Romiti said

yesterday that there were no

plans to break up or sell off

Snia BPD and its subsidiaries

Snia Fibre, Sorin Biomedica

and Caffaro, all of which are

That plan, later abandoned.

"The problem we have ahead

Italy and abroad.

free-trade area)."

Court gives go-ahead for CFF meeting

By Andrew Jack in Paris

Shareholders in Credit Funcier de France, the troubled specialist property lender, yester-day failed in their attempt to delay the group's annual general meeting, due to be held on Friday.

The Paris commercial court rejected the investors' claim that the provisional 1995 accounts circulated by CFF and qualified by its auditors were inadequate and justified delaying the assembly.

The decision came during a tense week for investors in a number of French groups. Eurotunnel, operator of the Channel tunnel railway link, holds its annual general meeting today amid tensions over a proposed restructuring plan with its creditor banks.

Separately, minority shareholders in Compagnie d'Investissements de Paris, an investment company, expressed their frustration at the decision of Banque Nationale de Paris, the majority investor, to reject a counter-bid launched on the company.

Mr Jérôme Meyssonnier, chatrman of Crédit Foncier de France, said yesterday that he could "only rejoice" at the decision of the court to reject criticisms from shareholders about the reasons behind changes in accounting policies, which partly explained FFr13bn (\$2.5bn) in provisions announced for 1995.

He said there was no question that be was making excessive provisions. The write-offs had been taken to reflect a sharp deterioration in the Paris property market, as well as the need to reflect a realistic assessment of its assets which would allow strong credit ratings.

Shareholders in Crédit Foncier have criticised the size of the provisions, and restructuring proposals which could make their investment in the group almost worthless.

quoted companies, although They bave threatened to Fiat may reduce its stake in attempt to block approval of the group's accounts on Friday and to vote against a capital reduction plan, while discuss-John Griffiths help resolve its difficulties.



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Fiat targets New York for tractor float

r Cesare Romiti, Fiat chairman, said yesterday the group would probably sell 30 to 40 per cent of New Holland, seeking a listing in New York by the end of this year. The details will be fixed later by Mediobanca, the Milan merchant bank, and Goldman Sachs, the US investment bank, which will handle the sale.

One Milan-based analyst warned yesterday that the tractor market had already reached the top of its cycle. New Holland staged a strong return to profit in 1994, when it recorded a profit before minority interests of L576bn (\$375m), against a loss of L148hn the previous year, but although the group increased sales in 1995, its profit slipped by 31 per cent. Fiat blamed the crisis in the Brazilian agricultural sector - which bought only 17,600 tractors in 1995, compared with 38,500 in 1994 - and difficulties in the sourcing of components for the decline.

But even if New Holland has passed its recent peak, analysts still concede that the capital gain on the sale of a minority stake will be "huge", given that the book value of New Holland NV, the Dutch-registered holding company for the group, was only L237hn at the end of 1995.

"As one of the biggest companies in the world producing agricultural and construction equipment, its capitalisation [in our balance sheet] is much Ploughing a rich furrow

Men Lion	PERIOR (MICH AND		· · _ ·		
	Turnover	Cash flow	Capital Expenditure	Profit before interes	
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1994 .	7,600	761	138	5	78 78,0
* Group Income	before minority interests, pic	e depreciation.			
Fiat (fire t	on)				
	. Nat Revenue	e Cas	h flow	. Capital	Number
		· . ·		Expenditure	. sanpitoyi
1995	75,69	2	6,778	5,651	237.4

lower than we expect to get for it on the market," said Mr Romiti at yesterday's Fiat shareholder meeting in Turin, although he did not put a fig-ure on the amount the group hoped to raise from a sale.

The decision to list New Holland, rather than directly seek a buyer or partner among its tractor industry rivals, reflects both the anti-trust difficulties which would certainly have been encountered by the latter course both in Europe and in North America - as well as likely lack of interest from companies big enough to be in a position to make an offer.

Between them, just four groups dominate the tractor markets of both Europe and North America. New Holland is Europe's market leader, with about 19 per cent of the 180,000 units a year sector, followed by John Deere of the US with 12 per cent, Massey-Ferguson with 11 per cent and JI Case with 10 per cent.

in North America, John Deere leads the market with a 35 per cent share. Case has 23 per cent, New Holland has 16 per cent and Agco, based in Georgia, Atlanta which owns Massey-Ferguson, 12 per cent.

Any further concentration would mean tangling with both US federal anti-trust authorities and the European Commission, points out Mr Christopher Barrow-Williams, research director of London-based analysts Off-Highway Research. However, it is also hard to

envisage any strong industrial or commercial imperatives for one of the other Big Four to seek a large stake in New Hol-The tractor industry has

been undergoing restructuring and the other leading groups are close to completing reorganisations giving each a substantial presence in the sector's leading markets.

For example, Case, whose flotation on Wall Street in three tranches was completed by US industrial conglomerate Tenneco last year, is completing construction of a large new production facility at Doncas-ter in the UK, about 150 miles north of New Holland's own principal manufacturing plant at Basildon in Essex.

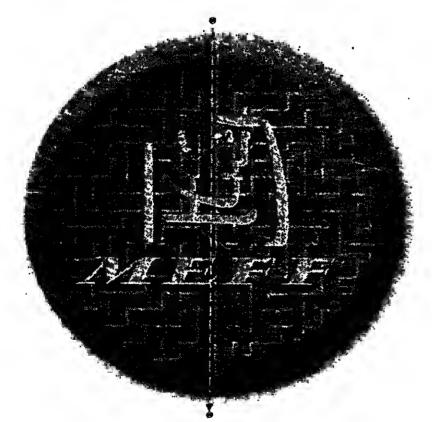
In addition, it has just acquired the tractors business of Stevr-Daimler-Puch, the Austrian engineering group, and now has strong representation across Europe to complement its main manufacturing operation at Racine, Wis-On top of the cash likely to

be raised from the New Holland flotation. Fiat has just appointed banks to organise a \$1bn multi-currency credit line. to last for the next seven years. Fiat had net debt of L3,497bn at the end of March, an increase of nearly L900bn from

the level on December 31, but

the sector, while remaining the largest shareholder. Andrew Hill and

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Fourth Row: Nadeem Fayyaz, Mary Beth Fender-Mieth, Jackie Gillan, Robert Hinaman, Rachael Hoey, Julie Jakobek, Jeremy Jewitt, Nadine Lagarmitte, Brian C. Lazell, Ray Morison, Andrew D. Panzures, Brian Scammell

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Moulinex workers march for 'dead town day'

gloomy unemployment figures finally sank in for the 6,000 people of Mamers.

They marched en masse vesterday through the shuttered streets of their tranquil Norman town, 180km west of Paris, in silent protest at plans by Moulinex, the household appliances group, to close the factory that is the mainstay of the local economy.

According to one official, the plant eccounts for 37 per cent of the town's professional tax receipts.

It was an effective and dignified way to draw attention to the downside of the efficiency drive that is in full swing across broad swathes of French commerce and industry, as managers restructure in the face of tough worldwide com-

Yesterday's so-called "dead town day" at Mamers came just over a week after Mr Pierre Blayau, Moulinex chairman, unveiled plans to cut more than 20 per cent of the

Philippines

Indonesia

Malaysia

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group, which has several plants in the region.

A tired-looking Mr Blayau spoke of the danger of Moulinex being bought by a foreign rival and of the need to bring the group's business performance to "a level equal that of its main competitors". He suggested the manufacture of products earmarked for developing markets would be trans-

ferred overseas. This was a point picked up by yesterday's marchers as they filed from the 30-year-old Moulinex factory, with its incongruous medicine pink logo, to a mid-morning rally, complete with balloons, church bells and air-raid sirens, in Place de la République. "No to Mexico, Yes to Mamers" said their banners. "Mamers must

not die." The factory's 411 employees at the head of the procession, many in blue overalls, wore numbers on their chests, like marathon runners. A large procompany's workforce, in a portion were at the age, in

Vietnam

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China

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t was the day the full move described on the front their 40s and 50s, where find-meaning of France's page of Le Monde as an "ejec-ing new jobs would be particu-gloomy unemployment tric shock" for the 60-year-old larly difficult, and had clocked larly difficult, and had clocked

up long years of service.
"Thirty-three years," said
employee number 204 when asked how long she hed worked for Moulinex. I work on motors," she added.

n a possible sign of things to come, the procession left behind a silent and deserted factory. White-handled irons were visible through the window on stetionary conveyor belts. A single blue Moulinex lorry stood near the delivery bay.

In a shrewd public relations move, the march was led by Fanny and Julien, both nine years old. They carried two simple banners. "My mum and dad don't have a factory any more," said one. "Thank you. Mr Blayau," said the other. Mamers' small businessmen

and women were also out in force. A sign in the window of Mr Pierre Colette's bric à brac and antiques shop spoke of his profound sadness and shock at

he would be on the streets all

The marchers bave other, more powerful allies. Mr Francois Fillon, minister of post and telecommunications and chairman of the general comcil of Sarthe, the departement where Mamers is located has called on the labour ministry to turn down the closure proposals.

Mr Franck Borotra, industry minister, has said they are "not acceptable in their present form".

But the industry ministry later acknowledged it could do little more than work at the margins of the plan to shed There was also a trace of

resignation in the response

from Mr Michel Corbin, mayor

of Mamers, when asked if he hoped to keep the plant "I am not completely convinced that all is completely lost," he said. "That means we must fight, step after step,



David Owen Unlucky numbers: staff display the number of years they had worked for Moulinex as they march through Mamers

Telecom Eireann finds partners

By John Murray Brown

the privatised Dutch telecoms company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, munications company.

The KPN-Telia consortium will pay an initial I£183m (\$115.7m) for a 20 per cent stake in TE.

minister for transport, energy and communications, said the total proceeds would exceed I£500m under a complex agree-ment, under which the consortium will pay an additional 1£300m over the next three years as it exercises options on the remaining 15 per cent. KPN-Telia will make further payments under a profit-shar-ing arrangement based on the

with Commission directives.

timetable, together with The balance will help to Greece, allowing it to maintain reduce the government's liabilities in respect of its pension contributions, which are currently around I£700m. The provision of mobile and "The structure of this deal allows us to align the strategic

has Europe's third most advanced digital network, but the decision to seek a derogastate, the company and the strategic partner," Mr Lowry tion was prompted more for political reasons. About 40 companies were

had both earlier withdrawn

deal was much less than had been originally envisaged. Mr

allow TR to restructure its balance sheet, where debt is running at around 1£860m.

and financial interests of the

Mr Lowry said it was a mile-

stone agreement. The govern-

ment has indicated this is a

ope-off sale, Nonetheless, KPN-

Telia will want the authorities

to clarify the nature of compe-

tition, together with future

intentions for the remaining 65

per cent stake, as well as the

Solvay, the Belgian chemicals company, has unveiled a \$170m investment plan for its soda ash plant in Wyoming, driven by the strength of the glass market in Latin America and Asia.

Solvay plans

for US plant

\$170m expansion

The company said it planned to expand the plant in three phases, beginning next April. The pace of the expansion will depend on demand, but capacity will eventually rise to 3.2m tonnes, from 2.1m tonnes currently.

Solvay's 20 per cent partner in the Wyoming plant, Asahi Glass of Japan, will take onefifth of the expanded output. Most of the remainder will be exported to glass producers in South America and Asia, The glass market is growing at 4 per cent a year in South America and 7 per cent in Asia, Sol-

vay said. Solvay is the world's largest producer of soda ash, and accounts for 60 per cent of European capacity.

NEWS DIGEST

Polish telecoms group raises loan

Netia Telekom, Poland's sole private telephone operator, has raised a \$180m loan from a foreign banking consortium led by the European Bank for Reconstruction and Development and ABN Amro of the Netherlands, for the construction of 350,000 lines over the next three years.

The 10-year facility, signed yesterday in Warsaw, is the EBRD's largest telecommunications loan to date. It opens the way for Netia – a joint venture between RP Telekom, a Polish telecoms operator, Tella, the Swedish state-owned operator, and the ERRD – to press on with plans to install the lines at a cost of \$350m. The remaining financing is to be provided by the company as well as supplier credits. Netia has installed 13,000 local lines.

Under Poland's present telecommunications regime, local onnections are open to competition while regional and international connections are controlled by Telekomunikacia Polska SA, which operates 5.8m land lines.

RP Telekom is jointly owned by local investors and foreign partners which include Dankner Investment, of Israel, and Goldman Sachs, of the US. Christopher Bobinski, Warson

Audi accelerates to DM206m

Audi, the German carmaker and subsidiary of Volkswagen. yesterday posted pre-tax profit of DM206m (\$134.4m) for the first quarter, up from DM96m a year earlier. The company said it expected full-year pre-tax profit to be "at least as high as last year". In 1995, Audi reported pre-tax profits of DM589m for the full year.

Car production in the first quarter grew 18.6 per cent to 120,110, while worldwide costomer deliveries rose 6.3 per cent to 116,651 during the period, from 109,698 a year earlier, Audi

However, a breakdown of deliveries showed a different picture, Audi noted. In Germany, deliveries fell 3.6 per cent to 52,290 in the first quarter, from 54,251. The decline was due to the unusually high number of deliveries during the period last year, it said. German market share fell from 6.5 per cent to 5.7

per cent during the period. In western Europe, excluding Germany, Audi deliveries rose 15.7 per cent to 45,498 in the first three months of 1996 from 39,313 a year earlier. Deliveries in the US rose 38.4 per cent to 5,776, from 4,173 units, Audi said. In the rest of the world, deliveries gained 9.4 per cent to 13,087 cars from 11,961. Agencies, Neckarsulm, Germany

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CSM in Swedish buy

CSM, the Dutch-based branded consumer products group, yesterday agreed to acquire Malaco, e Swedish manufacturer of sweets, from Kraft Freiz Marabou, the Scandinavian group which is a division of Kraft Foods, of the US. The purchase price was not disclosed. Malaco, which had sales of SKr866m (\$130.6m) in 1995, will become part of the CSM food division as an operationally independent unit. The acquisition will be official within four months.

Setback for German builder

Wayss & Freytag, the German building and construction group, said output in the first five months of the year totalled DM1bn (\$652m), or 3 per cent less than a year earlier. New orders in the period climbed 7 per cent from a year earlier to DM1_16hn, with domestic orders up 8 per cent at DM1_96bn. Unfilled orders rose 4 per cent from the end of last year to . DM3.8bn at the end of May, with domestic orders up 6 per cent at DM2.66bn, the group said. Wayss & Freytag had a 1995 net profit of DM24.6m. AFX News, Frankfurt

stage by stage."

A consortium linking Koninklijke PTT Nederland, Ireland's state-owned telecom-

Power in Asia Australia Mr Michael Lowry, Ireland'a

For further information on advertising in any of the above Tel. +44 (0)171 873 3050 Tel. +44 (0)171 873 3794 future earnings of TE.

The sale, on which the goverroment was advised by Morgan Stanley, the US bankers, was prompted by the need for TE to position itself shead of Lowry said that IF220m of the the deregulation of the European telecome market in line back into the company, to Ireland won a two-year delay, or derogation, in the EU

protective barriers to competitive telephony until 2000. other niche markets is already open to competition. Ireland

invited to make bids when the deal was first envisaged five years ago. KPN-Telia made a lower bid than Tele Danmark, the Danish state telecom company. Cable and Wireless, of the UK, had earlier offered 1£460m for a 40 per cent stake, AT&T, the US company, and British Telecommunications

from the bidding.
Rebutting criticism that the

question of how the pension liabilities are to be funded. The deal was strongly criticised by opposition politicians yesterday. However, Mr David Begg, head of the communica-

tions union, welcomed the

choice of partners.

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ING BARINGS

COMPANIES AND FINANCE: THE AMERICAS

NEWS DIGEST

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Pactel, SBC to pay for probe into link

Pactel and SBC Communications, the US "Baby Bell" telecoms companies planning to merge into a group with total sales of \$240n, are to foot the bill for a statutory probe into the deal's implications for consumers. The \$150,000 donation was intended to speed up regulatory proceedings by the Californian Public Utilities Commission, which is currently overrun with investigations and hobbled by a lack of state

funds, the companies said.

Urgency was called for because of a clause in the merger contract which allowed either prospective partner to cancel if the deal were not closed by the end of March next year. The PUC process, considered the biggest hurdle the companies must overcome, had previously been shelved indefinitely because annual budget cuts of 5 per cent over the past few years had left the bureaucracy unable to cope, officials said. A rush of work, prompted by last year's deregulation of the US telecoms industry and a rash of deals involving media, telecoms and entertainment companies, had drained

The companies' contribution pre-empts a clause in the Californian budget for 1996-97 which is intended to force merger candidates to pay all the costs of regulatory investigations, starting in July. If enforced, this could add at least \$1m to transaction costs, observers said. While the funds have at least allowed the probe to start, the PUC's consumer rights division is famed more for its meticulous approach than for speed.

Christopher Parkes, Los Angeles

Apple shares slide to all-time low

Shares of Apple Computer fell to an all-time low yesterday, trading at \$19% in mid-session amid investor concerns about its declining share of the personal computer market. Apple went public in May 1984, when its shares traded at around \$28. The stock has fallen below \$20 only once before, in December

1985, but this was before a two-for-one stock split in June 1987.

Yesterday's dip below \$20, a 3 per cent fall from Tuesday's close of \$20%, signaled sinking confidence in the ability of Apple's new management to restore the company quickly to profitability, analysts said.

Louise Kehoe, San Francisco

Placer Dome targets costly mine

Placer Dome has announced a "major renewal plan" aimed at improving the economics of its high-cost Sigma gold mine in Val d'Or, Quebec. The plan means cutting about 100 jobs at the mine, from 325.

Placer Dome said Sigma, which had an average cash production cost of US\$488 an ounce of gold in the first quarter, had been striving for profitability since a rock stide in June 1995 limited access to its primary ore zone. Studies have since shown that accelerated development of alternative gold veins will not compensate for the shortfall. The average cash production cost rose to \$550 an ounce in May, "necessitating action to stem losses in the short term", the company said.

to stem losses in the short term", the company said.

AP-DI, Vancou

Molson delays release of results

Molson, the Canadian brewer and retailer, has delayed release of its fourth-quarter and fiscal 1996 (to March 31) audited results until the second half of July because of the effects of its C\$1.1bn (U\$\$505.3m) sale of subsidiary Diversey's special chemicals assets. Molson has already sold C\$92m of Diversey assets. The last Diversey unit on the shelf may fetch about C\$20m. Molson is expected to incur a loss for the year after special charges.

Meanwhile, Moison has named Mr Norman Seagram, 62, to replace Mc Marshall Cohen as president and chief executive. Robert Gibbens, Montreal

Tenneco buys Amoco packaging business

By Lauria Morse in Chicago

Tenneco Packaging is to buy Amoco Foam Products Company, a unit of Amoco Chemical, for \$310m, in a deal that will expand its line of specially containers.

Amoco Foam Products, based in Smyrna, Georgia, manufacturas polystyrene cups, plates, and trays as well as hinged-lid food containers, packaging trays for meat and poultry, and industrial foams for residential and commercial construction applications. The company had 1995 sales of 2288m.

The purchase will carry Tenneco's polystyrene container applications into food processor and restaurant business lines. Last year, Tenneco paid \$1.3bn for Mobil Plastics, which manufactures consumer plastics such as Hefty rubbish bags and Baggies sandwich bags. Tenneco already makes polystyrene tableware for retail sale under the Hefty brand name.

The Amoco Foam purchase comes just a week after Tenneco announced the sale of its Tenneco Energy unit to El Paso Energy. The disposal was part of pians to redeploy capital into two main businesses: packaging and automotive

"This is the kind of acquisition which meets our criteria
perfectly. It is in one of our
core strategic businesses ~
specialty packaging; it will be
accretive to earnings from the
start; it exceeds our goal of a
15- per cent return; and it
offers synergy and opportunities for value creation," said
Mr Dana Mead, Tenneco chairman.

"Our strategy is focused upon redeploying cash from businesses such as energy, with at best a 9-10 per cent return and a highly uncertain regulatory environment, to businesses where we can meet our earnings goals and rely on the competitive forces of the market," Mr Mead said.

Tenneco Packaging is the fourth-largest packaging company in the US, and eighth-largest in the world. Amoco Foam Products employs 1,600 people at nine manufacturing centres, all in the US. Pullman bid. Page 21

Crunch time for US cereal makers

Consumers are tired of overpriced cornflakes, writes Richard Tomkins

If you want to make an American shopper apoplectic, just mention the cost of cornflakes. The usual response is a tirade against the prices charged by the big breakfast

cereal manufacturers.

Yet munchers of Cocoa Krispies, Grape Nuts and Spoon Size Shredded Wheat are finding themselves with less to complain about following the outbreak of a price war in the US cereal market. In the last few weeks, each of the three biggest cereal companies — Kellogg, General Mills and Philip Morris's Post subsidiary — have slashed prices in an attempt to win back fading consumer enthusiasm for their products.

The price cutting bears the hallmarks of a similar episode in the US tobacco industry that started with Mariboro Friday – the day in 1993 when Philip Morris cut the prices of its premium cigarette brands to regain market share.

Analysts say the hig cereal manufacturers, like the big tobacco companies three years ago, are guilty of sheer greed. Over a period of many years, they have pushed up prices in the belief that consumers will go on buying their products on the strength of their brands.

The result of this policy is

that branded cereals have become extraordinarily expensiva in US stores. In a Londoo branch of the J. Sainsbury supermarket chain last week, a 500g box of Kellogg's Corn Flakes was selling for £1.06, or \$1.63 at current exchange rates. In New York, a 510g box of the same product was selling for \$3.39 in a branch of the D'Agostino supermarket chain – at more than double the UK price per gram.

Significantly, not everyone pays such high prices. In an Price war begins to bite

IJS breaktast cereal market
Year to April 21 1996

Others 2.0% Kellogg
Relcorp 4.2%

Privata label

Oueker Oats 6.5%

16.1%

26.4%

Post General Mills

Share prices relative to the S&P Composition of the S&P Composition

attempt to stimulate demand. cereal companies typically distribute billions of money-off coupons a year, enabling the thrifty to buy their favourite

cereal at a discount.

The strategy, however, has failed. Infuriated by the high prices and constant coupon-clipping, US consumers bave started turning away from cereals, either skipping breakfast or switching to alternatives such as muffins or bagels. In the year to April 22, US cereal sales fell 8.7 per cent to \$7.85hm, according to Information Resources, a Chicago-based market research group.

Meanwhile, those consumers who still need their daily fix of flakes are saving money by buying private-label products instead of branded goods. Defying the shrinking market, private-label sales rose 9.1 per cent to \$514m in the year to April 21, says Information Resources – hardly surprising when a box of private-label conflakes can cost half the price of the Kellogg product.

Two years ago, General Mills became the first big careal

company to respond to weak-

ening demand when it announced it was reducing couponing and cutting the cost of its biggest-selling products by an average of 11 per cent. Now, faced with declining sales all the hig cereal makers

sales, all the big cereal makers are cutting prices. In April, Post announced it was reducing list prices by 20 per cent across its range of Post and Nabisco products; earlier this month, Rellogg followed by cutting prices by an average of 19 per cent across two-thirds of its US cereal sales; and last week General Mills, not to be outdone, announced it was cutting prices by another 11 per cent on brands accounting for 42 per cent of sales.

The manufacturers' apparent objective is to fight off the challenge from private-label products and restore growth to the cereal sector as a whole. "We believe the long-term benefits of these actions far outweigh their costs," said Mr Stephen Sanger, chairman and chief executiva of General Mills.

 Yet the price war is burting the participants. Kellogg said its earnings would dive from 77 Source Patesteem

cents to 45 cents a share in the second quarter to June, and that its earnings for the full year would be no higher than last year's. General Mills said the cuts would cut earnings by \$30m-\$35m, or about 30 cents a share, in its fiscal year ending

May 1997.

Another victim is Ralcorp, a manufacturer of private-label cereals, which stands to lose some of the market share it has won. Last week it announced plans to cut jobs and production at one of its plants, and said it would take an undisclosed charge in the quarter to June.

No-one knows where the price war will end, but the size of the price premium still being charged by the hig manufacturers suggests there could be more cuts to come. One Wall Street analyst, Mr Mark Altherr at Salomon Brothers, thinks one or more companies may even disappear before the war is over.

"There are basically too many cereal producers out there, and it may be that the end game in all of this is to get rid of somebody."

General Mills profit ahead 28% for year

By Richard Tomkins In New York

A big rise in breakfast cereal sales helped General Mills, the US food company, report a 28 per cent increase in underlying net profits to \$476m for its year to May 26. Earnings per share rose 28 per cent to \$3, the company said yesterday.

The figures were in line with

The figures were in line with predictions by General Mills last week, when it announced that it was introducing a second round of price cuts in its breakfast cereals, following a first round two years ago.

a first round two years ago.
General Mills also reiterated last week's warning that the latest price cuts would hit profits in the current year, reducing net income by \$30m-\$35m, or about 20 cents a share. Between 50 and 75 per cent of the impact would come in the first quarter, it said.

Last year's fourth quarter was the strongest of the year, General Mills said, with net losses of \$13.3m the previous year turning into net profits of \$77.5m.

Excluding restructuring charges in the previous year, earnings per share rose from 10 cents to 49 cents.

The profits growth was driven by a 13 per cent increase in sales to \$1.38bn, with unit volume up more than 11 per cent.

For the full year, General Mills said its Big G cereals business led the company's performance. Sales and unit volume both rose by nearly 10 per cent, and its share of the market by volume rose 1.3 percentage points following the price cuts of the year before.

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March 1996

St George fails to win support for merger

St George Bank, the Australian regional bank, is "considering its options" after shareholders in Brisbane-based Metway Bank failed to provide enough support for its A\$820m (US\$649m) merger proposal to go through.

But the Sydney-based bank's failure yesterday to secure the deal appears to open the way for the Queensland state gov-

merger between Metway, the state-owned Suncorp insurance business and the Queensland Industry Development Corporation.

This would create a regional "superbank", with assets of about A\$21bn, ranking as Australia's fifth-largest banking

St George bad sought to implement its merger plan via a scheme of arrangement, and needed 75 per cent of share-

Daewoo car sales

1993

shares to be in favour.

A majority of ordinary shareholders backed the scheme, but short of the required level. One class of preference shareholders were in favour, and one against

The outcome followed a day of drama in Brisbane, during which the Queensland state government suddenly increased its own offer terms for Metway while vociferous shareholder meetings to con-

rival scheme involving a holders in all three classes of sider the St George deal were cated that potential avenues

It said it would offer A\$4.80 a share for Metway, compared with A\$4.65 previously. This topped the St George offer. which had been increased to A\$4.77, although the Queensland government's cash would not be available so quickly. Metway directors, who had been supporting the St George

the first place. offer, quickly recommended the new offer instead. Last night, St George indifocus of bid speculation again.

go-ahead which it might explore included a legal challenge or a "normal" takeover bid. However, Metway's chairman played down the likelihood of the former succeeding, and By Mark Ashurst analysts believed that St George had been stretched to

If the Metway merger is no longer possible, St George itself is likely to become a

Further down the line, Dae-

woo will also launch a compact car below the T100, a multi-

purpose "people carrier", and even an executive saloon in the

Mercedes-Benz mould. Mr Kim

says Daewoo will eventually

that aim. Many are former col-

Mr Ginger Ostle, Daewoo's

design gura, worked at Por-

ment centre in Munich and its

UK-based research and development centre in Worthing.

Mr Bez says no other com-

pany has managed to develop

so many new cars so quickly

from scratch. The speed has come partly by using outside consultants. Work has been

sub-contracted to Lotus, the

UK engineering specialist, and

But even such outside help

may not be enough to keep

pace with Mr Kim's ambitions.

This year Daewoo tried to buy

Lotus and part of SFT's parent

company to reinforce its engi-

Inexplicably, Daewoo pulled

out of the Austrian deal and

suffered an eleventh hour

rebuff from Lotus's owner. Mr

Bez says Daewoo can fend for

itself without them. But the

company's surprise about-turn

in Austria and rejection at

Lotus have only added to the

contradictions in its strategy.

Austria's SFT.

neering resources.

r Bez has assembled a strong team of

engineers to achieve

sport 15 different models

leagues from Germany.

make its A\$4.77 a share offer in

Premier gets for R800m rights issue

in Johannesburg

Premier Group, the troubled South African food, pharmacenticals and retail conglomer-ate, has secured the agreement of its principal shareholders for a long-awaited rights offer which will be used to reduce its debt of R966.7m (\$222m). Mr Doug Band, chairman, denied analysts' reports that Liberty Life, the insurer, Johnnies Industrial Corporation, the industrial boldings group, and Anglo American Corpora-

tion had stalled Premier's plan for a R800m rights issue.

Details of the issue would be announced within weeks, he seid. "We want the money in the bank by the beginning of the next financial year." At April 30, Premier's over-

all debt-to-equity ratio was 32.4 per cent. The cash would be used to recapitalise its mainstay subsidiary, Premier Foods, which has suffered during the group's diversification into other retail sectors.

Premier posted a twenty-fold sche before becoming Mazda's European design chief. Other ex-colleagues can be found at increase in uet incoma to R553m for the year ended April 30, compared with R27.9m for the same period last year, due largely to excep-tional income from disposals. Earnings per share rose 19

per cent, from 25.2 cents to 30 cents. The final dividend goes up from 10.5 cent to 12.5 cents. The group received R295.5m from the sale in January of Clicks, its 159-store retail chain, to Malbak, the South Africau consumer goods group. It also sold its head office in Johannesburg for a profit of R28m and gained a further R53m from other dis-

But while the disposals reduced gearing, interest charges increased from R105m

posals.

Trading profit for the period was up 23 per cent to R776.3m, against R630.2m, and the overall tax burden increased from R134.6m to R217.7m.
Analysts said the group's

recovery would depend on its penetration of the added-value ictions in its strategy.

Haig Simonian

food market, which could require further disposals to fund new production lines.

NEWS DIGEST

Dickson Concepts ahead 19% for year

Dickson Concepts, the Hong Kong-based luxury wholesaler and retailer, yesterday reported a 19 per cent increase in net profits to HK\$385.5m (US\$51.1m) for the year ended March 31, against HK\$332.19m the previous year. Dickson said all subsidiaries were operating profitably, including China, which is expected to make significant contributions once economic conditions there improve. Earnings per share rose 19.5 per cent, from 48.7 cents to 58.2 cents. Shareholders are to receive a final dividend of 21 cents, giving a total for the year of 33 cents, up 17.8 per cent on the previous year's 28 cents, and the directors are proposing a 1-for-5 bonus issue. Louise Lucas, Hong Kong

BHP divests North Sea holding

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The steady divestment of "non-core" energy assets by BHP Petroleum, part of the Australian resources group, continued yesterday. The unit announced it was selling its 12.43 per cent stake in the Mungo and Monan oil and gas fields in the North Sea to Total Oil Marine, part of the French Total group. The fields form part of the Eastern Trough project. No sale price was announced, although the Australian

company said it expected to show a profit over book value on the deal. The divestment follows BHP's sale of assets in the Dutch sector of the North Sea to SRV Energy earlier this month, and of some North American producing assets. Nikki Tait, Sydney

Kim Eng slides to S\$35.6m

Kim Eng Holdings, the Singapore-based broker, saw net profit fall 19 per cent to \$\$35.6m (U\$\$25.2m) for the year ended March 31. The company said its performance reflected the market conditions in Singapore, Malaysia and Hong Kong, adding that it was abla to stay profitable despite the low volumes of shares transacted. It added that it expected market conditions to remain difficult. Revenues declined from S\$131.7m to S\$112.0m. The dividend was pegged at 2 cents. AP-DJ, Singapon

First Capital to raise S\$200m

Shareholders in First Capital Corporation, the Singapore property group, have agreed to the creation of 200m cumulative preference shares at an issue price of \$\$1.00 each. The issue is designed to raise \$\$200m (US\$142m) to refinance the company's redeemable preference shares and be used for working capital. FCC said the new shares would pay an interest rate of 5.00 per cent and be redeemable in 1999.

Mayne Nickless sells UK unit...

Mayne Nickless, the Australian transportation, security and healthcare group, is selling its Security Express Armaguard business in the UK to Sweden's Securitas group. The sale price is A\$8m (US\$6.3m), with up to a further A\$15m due if the business returns to the black before the end of 1997. The move completes Mayne's exit from its European security interes

Ashok Leyland posts 60% rise.

Ashok Leyland, the Indian truck manufacturer, yesterday posted a net profit of Rs1.13bn (\$32.4m) for the latest year ended March 31, up 60 per cent from Rs705 9m last time. Revenues jumped to Rs20.1bm, up from Rs15.1bm. Pre-tax profit for the latest year rose 89 per cent to Rs1.34bn. AP-DJ, Bombay

Daewoo Motor on ambitious new course

The Korean group aims to become one of the world's top 10 car manufacturers

n a bleak waterside spot about 200km south of Seoul Daewoo Motor, the Korea's fourth-largest industrial group, is building the mother of all car plants.

The new facility at Kunsan is the company's ticket to "Vision 2000" - its plan to become one of the world's top 10 carmakers. When completed early next century, the halls peppering the site, largely reclaimed from the sea, should be churning out more than 1m cars and trucks a year.

Already, the high-tech buildings constructed for the first phase to build 800,000 cars and 20,000 heavy trucks a year contrast sharply with the desolate landscape. If and when the next two stages are built, raising output to 900,000 cars and about 120,000 trucks a year, the contrast will become more

The uneasy marriage of man and nature at Kunsan is emblematic of the broader contradictions within Daewoo. Whila the company, personified by its charismatic founder Mr Woo-Choong Kim, trumpets ambitions to climb new peaks, critics claim its products and performance are distinctly leaden-footed

Daewoo has hit the headlines less for Kunsan, which has only just started pilot production of passenger cars, than for its acquisitions abroad mainly in eastern Europe and the former Soviet Union.

In the past two years, it has bought a former state carmaker in Romania, the biggest state truck group in the Czech Republic, and founded a car

Initial Public Offering

100 plant in Uzbekistan, Acquisi-

tiveness reached its zenith last February, when Mr Kim signed a deal to take over FSO, a Polish public-sector carmaker infamous for its unreliable and outdated Polonez models. Mr Kim says the motley col-lection will be made competitive by building Daewoos. That should give the company a

bead-start in areas, such as eastern Europe, where car ownership is expected to surge. Daewoo is already becoming a familiar name in its target markets. Not long before snatching FSO from the grasp of General Motors, which had been negotiating with Warsaw for more than four years, it purchased FSL, a commercial vehicles group, which is assembling Daewoo's Nexta hatchback alongside its truck range. But the Nexia, in reality an

outdated Opel from GM's Ger-

man subsidiary, typifies the

contradictions between Dae-

woo's ambitions and its cur-

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rent standing. All the company's cars are based on products from other manufacturers. The Nexta and the Espero are reskinned Opels, the Tico minicar comes courtesy of Suzuki, and the executive Arcadia is a rehadged, previous-generation, Honda Legend.

*000 unibs

uch generally low-cost, low-tech models could be ideal for regions such as eastern Europe or India, where most customers want uncomplicated, affordable cars, rather than all the frills. Confusingly, however, Mr Kim also wants to make Daewoo's name in western Europe and the US. The company hopes to sell 100,000 cars in western Europe this year and 150,000 in the US once established there.

Yet it is hard to see bow Daewoo will fulfil its ambitions in view of the fact that demand for cheap and cheerful cars in both regions is limited. Mr Ulrich Bez, the former BMW and Porsche executive who joined Daewoo almost three years ago, explains the apparent contradiction. "You must understand the difference between the present cars and those of the future," be says. Mr Bez makes little effort to defend the current range. He focuses on the three new models under development - the first of which has just gone

into production at Kunsan. Codenamed J100, it is about the size of a Rover 400 and will come as a hatchback, notchback or station wagon. Below it in the range will be the T100. sized similarly to a Rover 200, while above will stand the V100 executive sedan.

All three look stylish and modern. Korean drivers will get their hands on the J100 towards the end of this year. Exports will start in early 1997. and Mr Bez hopes the entire range of current models will have been replaced worldwide within two years.

June 1996

WOOLWICH

£200,000,000

Floating Rate Notes due 1999

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 23rd September, 1996 has been fixed at 6% per annum. The interest accruing for such three month period will be £154.10 per £10,000 Bearer Note, and £1,540.98 per £100,000 Bearer Note. on 23rd September, 1996 against presentation of Coupon No. 10.



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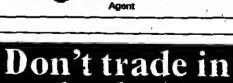
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COMPANIES AND FINANCE: UK

Costain in talks as shares suspended

By Andrew Taylor, Construction Correspondent

Costain is having talks with a Potential south-east Asian investor considering purchasing a large stake in the UK

construction group. The British company which has asked the stock exchange permission to extend the deadline for publishing its annual results pending "significant corporate developments" yesterday called for its shares to be suspended after they fell 31p The price fall reflected mar-ket concerns that the delay in publishing results might mean further bad news following two separate profits warnings by Costain earlier this year.

The significant developments referred to by the company. however, are understood to relate to the possibility of a large stake being sold to a south east Asian company and to negotiations over the sale of Costain's remaining US coal interests which are also thought to be at an advanced

The deals, if they come off, would together wipe out Costain's remaining debt, leaving the company with a modest cash surplus.

lt would leave Costain. which ran into serious difficulties in the early and mid 1990s, in its strongest financial position for years. Collaboration with a south east Asian investor also could provide further work opportunities in the region's expanding construction market. The sale of large a 50 per cent, would involve Costain in issuing a large amount of new equity which would require shareholder approval. It was not clear yesterday how the British group's major shareholders, including two Middle eastern construction companies, each with a stake of just over 19 per cent, would

react to the proposals. Costain which regards south east Asia as one of its most important markets has kept its major shareholders informed of the negotiations.

Analysts have estimated that the sale of Costain's US coal

industrial conglomerate, for

American motor components

after Pullman agreed to delete

provisions of the original

merger agreement allowing it to terminate the transaction if

it received superior proposals. It was expected that May-flower's chief executive, Mr 250m (\$76.5m). An announcement of the two deals would mitigate the impact of the company's annual results which are expected to show pre-tax losses in the region of £40m.

Tha construction group would not comment last night on speculation about share issues or the sale of its coal business only adding that it expected "to be able to make an announcement concerning these results and other significant corporate developments



Vendome profits hit by exceptional world events

By David Blackwell

Higher taxes, lower interest income and exchange rate pressures dented last year's outcome at Vendome Luxury Group, the bolding company that owns brands such as Cartier, Dunbill and Mont-

The group, 70 per cent-owned by Richemont, also blamed exceptional world avants. partly in its kay trading period in the run-up to Christ-

These events included terrorism in Europa and Japan, social unrest in France, the reduction in the number of Pacific rim tourists to Europe

following the French nuclear tests, and the Japanese earthquake, which knocked out two

of its shops.

Pre-tax profits for the year to
March 31 fell from SwFr482.8m to SwFr471.6m. Sales edged ahead to SwFr2.68bn from SwFr2.65bn. However, in sterling terms

pre-tax profits were almost 9 per cent higher at £257.7m. (\$394.3m) and sales 13 per cent up at £1.47bn.

Mr Joseph Kanoni, chairman, described the year as "satisfactory" considering the strength of the Swiss franc. The currency now appeared to have stabilised, and if the trend were to continue this

earnings growth. The net cash pile was almost unchanged at SwFr887.2m, but SwFr29.2m to SwFr16.7m as

Swiss interest rates dec-

lined from 4 to 1.5 per

The tax rate, low in 1993-94 to Swiss tax law, moved up sharply to near the expected normal rate of 27 per

Earnings fell 10 per cent to SwFr 0.506p per unit. In ster-ling terms a final dividend of 6.63p is proposed, giving a total for the year of 10.24p, a rise of

Danka shares fall after first quarter estimates

By Geoff Dyer

Shares in Danka Business Systems fell 28 per cent yester-day after the acquisitive office equipment supplier released estimates for first quarter prof-its which were below some

analysts' forecasts. The shares, which have risen tenfold in the last four years, fell 195p to 490p after the Florida-based group said that prof-its in the first quarter of this financial year would be £21m-

£22m (£32 1m-\$33.7m). Mr Mark Vaughan-Lee said the group had increased its North American sales staff by 10 per cent in the last two months, which meant that the group would face a period of higher costs while the new staff were being trained.

be held back, he said, by the cost of reorganising the US business into a regional struc-ture, which would lead to the temporary duplication of some

The announcement produced a mixed response from analysts. In the US, where most of the shares are traded, analysis reduced their forecasts for annual profits by around 20 per

First half profits would also

Panmure Gordon, the group's house broker, provisionally reduced its forecast for full year profits from £79m to £72.5m and some analysts said it was inevitable that Danka's large number of acquisitions We had not anticipated that would lead to management

our businesses would hire the new staff at auch a fast rate."

However, Mr Richard Harwood at brokers Collins Stew-art left his forecast unchanged at £83m, on the grounds that be had expected the group's expansion plans to lead to some one-off costs.

"The shares had been trad-ing at a multiple of 30 which made them look a bit overblown," he said. As a result of yesterday's

correction the shares are on a forward p/e ratio of about 20. The rise in Danka's shares, which were at 49p in September 1992, has been fuelled by acquisition-led growth, which included 50 separate purchases last year. The group has also been expanding it sales and marketing staff to help introduce the new digital colour copiers to its clients.

insisted on a similar clause if the British company had Mayllower, the UK engineering group, said yesterday it had decided not to pursue a count-er-hid against Tenneco, the US decided to increase its own bid. Mayflower was disappointed but said it would continue to examine other potential acqui-sitions as part of its strategy to

John Simpson, would have

develop into a global antomogroup Pullman. Mayflower's announcement tive engineering concern. Under its original agreement with Pullman, Mayflower will be reimbursed the \$3.5m costs came a few hours after Tenneco's Monroe Anto Equipment subsidiary had agreed to increase its bid for Pullman to it incurred in preparing its \$329m (£214.3m) - some \$62m group. Pullman said its share-holders would receive about more than the original offer made by Mayflower two weeks \$16 for each share beld, np from \$13.50, after giving effect to the retirement of Pullman's The final deal was struck

Mayflower pulls out

of US counter-bid

and other obligations.

The exact price will be determined on the closing date based on the amount of bank debt outstanding at the time.

outstanding debt, fee payment

The disposals will result in a

Laporte makes Australasian disposals By Simon Kuper company. Feruz said yesterday programme would add £10m to

Laporte, the UK's fourth largest chemicals company, took the first big step in its disposal programme yesterday by selling most of its Australasian businesses for A\$57m

The bulk of the operations were bought by Fernz Corporation, a New Zealand quoted

it would also buy Akzo Nobel's crop protection chemicals business for NZ\$20m.

The businesses being sold made operating profits of A\$5.4m on sales of A\$136m last year. Mr Jim Leng, chief executive, said Laporte planned to dispose of further non-core businesses with total sales at least that high. He has said his

profits by reducing costs, and out Laporte on a path towards double-digit profit growth.

"In December we decided there was at least 10 per cent of the group that didn't fit. To show how fragmented our we had 11 operating units there," he said. Laporte last year tried but failed to float

the businesses on the Sydney stock market. It said the Australian chemicals market was

goodwill write-off of about A\$38m. to count against 1996 pre-tax profits. However, anslysts left their profit forecasts unchanged at £120m. The group has made restructuring provisions of £88.7m.

RESULTS			
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	()	0.417	(0.538)	2.61	(4.62)	1	Sep 6	0.9	1	0.9
0.140	(0.050)	0.499L	(B.89(R.)	2.16	(3.7L)	-	•	•	-	•
44	(38.6)	2.21	(1.78)		(7.9)		Aug 23			2.7
1,467	(1,300)	257.7	(236.7)				Sep 16			9.37
52.6	(46)	5.12	(5.09)		(3.84)					0.75
•	(-)	3.12	(2.81	19.99	(17.48]	6.5	0ct 1	7.7	12.52	11.35
WAY	f fee			EPS	(c)	Current payment (c)	Date of payment	Corresponding children	Total for	Total im
										4.8
517.8 284.78	(445.2)	43.6 0.150L	(16.3) (0.021)	1.524	(5.75)	3.45 pi	94h 53	nii	3.45	2.2
	0.795 0.746 2.95 8.45 18.9 80.2 19.1 257 129.7 79.3 28.1 1.12 0.140 44 1.467 52.8	0.746 (0.707) 2.95 (1.18) 8.46 (2.19) 18.9 (15.6) 90.2 (77.5) 19.1 (10.2) 257 (198) 129.7 (198) 129.7 (1982) 79.3 (74.2) 28.1 (25.7) 1.12 (0.126) (0.140 (0.050) 44 (38.6) 1,467 (1,900) 52.8 (48) (-) NAV (P) 517.8 (445.2)	0.785 (2.81) 0.085 0.746 (0.707) 0.1451 2.95 (1.18) 1.681 8.46 (3.19) 25.14 18.9 (15.6) 0.06 80.2 (77.5) 9.16 19.1 (10.2) 3.5 257 (198) 28.3 129.7 (139.2) 7.751.4 28.1 (25.7) 1.159 1.12 (0.126) 0.268 () 0.417 0.140 (0.950) 0.4991 44 (58.6) 2.21 1,467 (1,300) 257.7 52.6 (46) 5.12 (-) 3.12 MAN (p) 6.455.2	0.785 (2.81) 0.085 (0.054.4) 0.746 (0.707) 0.145. (0.064.) 2.95 (1.18) 1.681. (1.51.) 8.46 (3.19) 25.14 (26.33) 18.9 (15.6) 0.06 (0.6221.) 80.2 (77.5) 9.16 (5.97) 19.1 (10.2) 3.5 (2) 257 (160) 28.3 (14.3) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 129.7 (139.2) 7.761.4 (0.838) 1.12 (0.126) 0.268 (0.1901.) 1.140 (0.126) 0.268 (0.1901.) 1.467 (1,300) 0.499. (2,8001.) 44 (38.5) 2.21 (1.78) 1.467 (1,300) 2.57.7 (238.7) 52.8 (48) 5.12 (5.09) 1.12 (0.126) 0.312 (2.81) MAY (p) Emiliopa (2.81) Authorization Emiliopa (2.81) MAY (p) 43.8 (16.3)	0.785 (2.81) 0.065 (0.0544) 0.39 0.746 (0.707) 0.145L (0.064L) 0.0.05L 2.95 (1.18) 1.68L (1.5L) 6.27L 8.46 (3.19) 25.14 (20.33) 49.51 18.9 (15.6) 0.06 (0.622L) 0.25 80.2 (77.5) 8.16 (5.97) 10.8 19.1 (10.2) 3.5 (2) 10.71 257 (198) 26.3 (14.3) 20.03 129.7 (139.2) 7.76L4 (0.888) 21L 79.3 (74.2) 144 (15.3) 15.31 28.1 (25.7) 1.154 (0.888) 21L 28.1 (25.7) 1.154 (0.888) 21L (0.126) 0.268 (0.197L) 1.23 (1) 0.417 (0.538) 2.61 0.140 (0.050) 0.499L (0.897L) 2.77 52.6 (4.5) 2.21 (1.78) 8.8 1.467 (1.300) 257.7 (230.7) 27.7 52.8 (46) 5.12 (5.09) 3.711 52.8 (45.2) 43.8 (16.3) 6.77	0.785 (2.81) 0.065 (0.0544) 0.39 (0.04) 0.746 (0.707) 0.145L (0.064L) 0.0.05L (0.11L) 2.95 (1.18) 1.68L (1.5L) 6.27L (6.34L) 1.68L (1.5L) 6.27L (6.34L) 18.9 (15.6) 0.06 (0.622L) 0.25 (2.65L) 80.2 (77.5) 8.16 (5.97) 10.5 (6.3) 19.1 (10.2) 3.5 (2.) 10.7† (7.48) 25.7 (108) 28.3 (14.3) 20.63 (11.82) 129.7 (108) 28.3 (14.3) 20.63 (11.82) 129.7 (138.2) 7.76LA (0.888) 21L (0.2 L) 79.3 (74.2) 144 (15.3) 15.3† (17.9) 28.1 (25.7) 1.15\$ (0.305) 1.88 (1.36) 1.12 (0.126) 0.268 (0.197L) 12.3 (14.48L) (1.04) 0.417 (0.538) 2.61 (4.52) (1.46) 0.417 (0.538) 2.61 (4.52) 4.4 (58.6) 2.21 (1.78) 8.8 (7.9) 1.46 (58.6) 1.21 (1.78) 8.8 (7.9) 1.46 (58.6) 1.21 (1.78) 8.8 (7.9) 1.46 (58.6) 1.21 (1.78) 8.8 (7.9) 1.46 (1.300) 257.7 (23.6.7) 27.7 (27.7) 52.8 (46) 5.12 (5.09) 5.7† (3.34) (1.34) 6.77 (6.75)	0.785 (281) 0.085 (0.0544) 0.39 (0.04) nll 0.746 (0.707) 0.1451 (0.0641) 0.0.051 (0.111.) - 2.95 (1.18) 1.681 (1.51.) 6.271 (6.341.) - 8.46 (3.19.) 25.14 (26.33.) 49.51 (5.48.) - 18.9 (15.6.) 0.06 (0.6221.) 0.29 (2.691.) - 90.2 (77.5.) 8.16 (5.97.) 10.5 (9.3.) - 19.1 (10.2.) 3.5 (2.) 10.71 (7.48.) 2.48 (25.7.) (169.) 26.3 (14.3.) 20.63 (11.82.) 5.45 (129.7 (138.2.) 7.761.4 (0.886.) 211 (0.2.) nll 7.93 (74.2.) 1.44 (15.3.) 15.31 (17.9.) 5.5 (28.1 (25.7.) 1.159 (0.805.) 1.89 (1.36.) 0.1 (1.12 (0.126.) 0.268 (0.1901.) 1.23 (14.481.) 1.2 (1.12 (0.126.) 0.268 (0.1901.) 1.23 (14.481.) 1.2 (1.050.) 0.4991 (0.806.) 2.11 (3.71.) - 44 (35.5.) 2.21 (1.76.) 8.8 (7.9.) 2.2 (1.467 (1.300.) 257.7 (231.7) 27.7 (27.7.) 6.63 (1.467 (1.300.) 257.7 (231.7) 27.7 (27.7.) 6.63 (1.468.) 1.2 (0.9.) 1.2 (0.785 (281) 0.085 (0.0544) 0.39 (0.04) nil - 0.746 (0.707) 0.1451 (0.0841) 0.0.051 (0.111.) - 2.95 (1.18) 1.681 (1.51.) 6.271 (6.341.) - 8.46 (3.19) 25.14 (26.33) 49.51 (5.48.) - 18.9 (15.6) 0.06 (0.6221.) 0.25 (2.691.) - 19.1 (10.2) 3.5 (2.) 10.71 (7.48.) 2.46 Aug 1 25.7 (189.) 26.3 (14.3.) 20.63 (11.82.) 5.45 Aug 9 129.7 (139.2) 7.761.4 (0.888.) 211 (0.2.) nil - 79.3 (74.2.) 1444 (15.3.) 15.31 (17.9.) 5.5 Oct 2 28.1 (25.7.) 1.159 (0.805.) 1.89 (1.36.) 0.1 Oct 1 1.12 (0.126.) 0.268 (0.1901.) 123 (14.481.) 1.2 July 25 (1.0407 (0.580.) 0.4991 (0.805.) 2.61 (4.62.) 1 Sep 6 0.140 (0.050.) 0.4991 (0.806.) 2.11 (3.71.) - 44 (35.5.) 2.21 (1.78.) 8.8 (7.9.) 2.2 Aug 23 1.467 (1.300.) 257.7 (231.7.) 27.7 (27.7.) 6.63 Sep 16 52.8 (46.) 5.12 (5.09.) 5.71 (3.84.) 0.55 Oct 2 Authorizable Emiliage (2.81.) 18.99 (17.48.) 8.5 Oct 1 Authorizable Emiliage (2.81.) 18.99 (17.48.) 8.5 Oct 1	0.785 (281) 0.085 (0.0544) 0.39 (0.04) nil - nil - 0.746 (0.707) 0.1451, (0.0641) 0.0.051, (0.111.)	0.785 (281) 0.085 (0.054Å) 0.39 (0.04) nt - nt

Earnings shown basis. Dividends shown not. Figures in brackets are for corresponding period, After exceptional charge. Water exceptional cradit. No increased capital. SUSM stock.

SEOUL TRUST

International Depositary Receipts

Evidencing Beneficial Certificates representing 1,000 units (and 100 units)

Notice is hereby given to the Unisholders that DAEHAN INVESTMENT TRUST Co., Ltd. (the "Manager") has declared a distribution of Won 412,000 per IDR of 1,000 Umbs (Won 412,000 per IDR of 100 Umbs) payable on or after July 18, 1996 in the Republic of Korea as well as the possibility, until August 22, 1996, of recovering in new IDRs of 100 Umbs all or part of the distribution in which holders are entitled.

L DIVIDEND PAYMENT Payments of coupse no. 11 of the International Depositary Receipts will be made on or after July 12, 1906, in US dollars at one of the following offices of Morgan Gautanty Trust in New York.

- Brussels, Avenue des Arts 35 New York, Wall Street 60
- The amount of dollars shall be the net proceeds of the sale of the Won amount to an exchange bank in the Republic of Rocca at the rate quoted by Rocca Exchange Bank, on the day of remittance be the Manager, and will be distributed to the Unitholders in proportion to their respective engitlements after deduction of all taxes and charges of the Deposition.

proportion to their resp. clive entitlements after deduction of all taxes and entarges of the Depositions.

Holders exciding in a commey having a double Levation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding Lev. on condition that they furnish to either the Depositary or through one of the description of sub-paying agents a certificate showing their residence together with a copy of the Certificate of Incorporation or a copy of the passport for individuals. These documents are required by the Korean National Tex.

Administration Offlice as evidence of residence and without them the full rate of 77.5% per Korean don-resident withholding cax will be retained.

For residents of the United Kingdom, the most mends to apply for distributing for the accounting period ended May 31, 1996. UK benefit times will in most circumstances be leable to tay on the distribution whether reinvested or not. entermenances that fail to request the destribution by the end of October 1996, I intermentaged amount of distribution will be sent to the Depository in each often ion of 27.50 per tax no later than the end of N-n ember 1996.

For 5 years, the Depository will keep the amount for delayed distribute. The unclassed money shall remon to the most on Jone 1, 2001. All relavestment requests as a whole multiple of 101 Units are to be tent no later than August 22, 1996, together with the above-mentioned required documents, to one of the following addresses: 2. PROCEDURE FOR REINVENTMENT OF THE DISTRIBUTION

of the following measurement of the following of the foll Department, Boulevani Entile 32-2-204, 14,60, teles 01025).

If the IDRs are held ourside Euroclean to Moryan Ganzany Trust Company of New York, IDR Department, Avenue des Arts 35, 11stn Scussely (phone 12.2.508.86,43, teles 21752) The issue price for representent will be the net asset value per Unit on August 27, 1990, in cases where represent distributions are not a multiple of 100 Units, the Unit holder can request a partial relayestment and a partial exist distribution. The reinvestment shall be made on August 30, 1996, and the issue and delivery of IDRs to the persons entaled to reinvestment on September 30, 1996.

JP Morgan Depository: Mangan Guartery Trust Company of New York

The Republic of Italy

US\$500,000,000 Floating Rate Notes due 2000

given that for the Interest Period from 27th June, 1996 to 27th December, 1996 the Notes will carry an interest rate of 5.75% per amount. The interest payable on the relevant interest payable on the relevant interest payable on the relevant interest payable and US\$7.307.29 per US\$10,000 Note and US\$7.307.29 per US\$250,000 Note.

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Notice is hereby given that the rate of interest for the period from June 27th, 1996 to September 27th, 1996 has been fixed at 6 0625 per cent, per amount The coupon amount due for this period is USD 1,549.31 per denomination of USD 100.000 and as psysble on the Interest payment date September 27th, 1996.

The Financial Times plans to publish a Survey on on Tuesday, July 9.

For further information, please contact

Tina McGomnan

on +44 171 873 4816, Fax: +44 171 873 3595 or your usual Financial Times representative.

All of these securities have been sold. This announcement appears as a matter of record only.

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COMPANIES AND FINANCE: UK

Tomkins uncertainty ended

Shares in Tomkins rose 13p to 249p in relief yesterday after the industrial conglomerate received regulatory approvals for its long-awaited \$1.37bn (£981m) acquisition of The Gates Corporation, the familyowned US manufacturer of power transmission belts.

The approvals will end 15months of uncertainty over the future ownership of one of America's largest private businesses, employing 14,000 people. Analysts said the acquisition, the biggest by Tomkins since its 1992 purchase of food group Ranks Hovis McDougall, will also enhance Tomkins

Mark Cusack, of broker UBS. said: "It gives them \$1.8bn of relatively underperforming turnover to get right, together with growth opportunities,

Clyde Petroleum, the UK-based

independent oil company,

attempted to speed up its take-over of Crusader, an Austra-

lian energy group, and fend off

further bids by offering more

money to shareholders if thay accept the deal tom-In what is considered an

unusual move in a recom-

mended bid in the UK, the

company's Australian subsid-

iary announced that it would

increase its offer from A\$1.62

to A\$1.67 per share if it held a

controlling 50.1 per cent stake

by the close of business tomor-

If the carrot is not accepted

Clyde will drop the new offer. It currently holds 15.2 per

cent of Crusader's issued

The increased terms value

Crusader at ahout A\$178m

(£92.2m), up from its previous

bid of A\$172.8m. However,

because of the stronger pound

in the intervening period the effect on Clyde's cashflow will

not be as great.

Clyde Petroleum

offers 'carrot' to

speed up takeover

some of which are in non-OECD economies in Asia and equity. Mr Charles Gates, the Latin America.

Andrew Hollins, of broker Kleinwort Benson, said: "We see the deal as an attractive one for Tomkins, which will enhance earnings by two per cent this year and three per cent next year."

The Gates family invited bids for their company, which manufactures automotive and industrial drive belts and hoses, from would-be buyers in March last year. They wanted a new owner who could meet its growing investment needs.
Tomkins beat off rival approaches from Tenneco, the Houston-based industrial group and Dana, the Ohio auto-

motive parts group.

The Gates family will receive preference shares convertible into up to 226.7m Tomkins shares, giving them sway over

The new deal represents a 38

per cent premium to Crusad-

er's A\$1.21 pre-offer share

Triton Energy, the US oil producer and Crusader's big-

gest shareholder with 49.9 per

cent, said at the time of Clyde'a

offer in May that it intended to accept the deal in the absence of a higher bid. The group was understood to have been in

talks with two other hidders

before the Clyde announce-

Crusader's board had described the bid as fair and

reasonable", The company had

reported a post-tax loss of

A\$3.2m after abnormal items in

1995 and net assets of A\$141.5m

The offer, which was due to

Mr Malcolm Gourlay, Clyde's

executive chairman, said the

deal would increase Clyde's

reserves by almost 5,000 bar-rels of oil equivalent a day and would also lengthen its reserve life by about eight

months to just over eight

close on July 5, has been

extended by a week.

ment

in 1995.

equity. Mr Charles Gates, the president and chief executive of the US group, will become a non-executive director of Tom-

The conversion price of the two classes of preference shares issued to the family will be set at the higher of \$20.469 or a 25 per cent premium to the average closing price of Tomkins American Depository Receipts in the 20 trading days from June 26 to July 24. The family will not sell more than 2m shares a year for the next

Analysts said the higher the Tomkins share price, the greater the earnings enhancement the group would receive from the deal. It gives them every incentive to get the share price up," said one. Mr Gregory Hutchings, chief executive of Tomkins, said the

Harvey

Nichols

By Simon Kuper

after its flotation.

floor space.

period last year, boosted by the 4,800 square foot expansion in

The group plans to open its

first of several stand-alone res-

taurants at the Oxo Tower Wharf on London's South Bank

in September, and a second

store in Leeds in October. Mr

Clive Morton, finance director,

said: "We think the UK can

only sustain four of our stores in total." After Leeds, Harvey

Nichols would consider open-

ing in Glasgow, Newcastle or Manchester. Turnover last

year was 16 per cent ahead at 590.2m. Mr Poon said this was

because the group had improved its sales mix and

modernised and increased Its

sales area. Mr Morton said

turnover per square foot had

deal had taken a long time because the Gates family planned to be long-term investors in Tomkins.

Their management has been around our factories." he said. "They have done due diligence on ourselves and a couple of others."

Mr Hutchings said huying Gates would take Tomkins into the antomotive industry through a strong husiness with great growth potential. It would also help Tomkins develop beyond the Anglo-Saxon economies.

"I have always been petrified to go into markets in Asia that I don't know," he said. "With Gates, we have bought management who know these areas." He said that with \$280m of cash at its last year end in March, Tomkins had ample resources to exploit the new opportunities.

leaps 53% Harvey Nichols, the Sloane Ranger's favourite London pre-tax profits rise 53 per cent to £9.2m (\$14.1m), two months Mr Dickson Poon, the Hong Kong-hased chairman, said that sales since the March 30 year-end had risen more than 20 per cent over the same

Dickson Poon: current year

sales ahead 20 per cent risen from £535 to £622, up from £400 in 1993. Food retail and hospitality area sales rose 19 per cent to about £13.4m thanks to Sunday trading, higher cover charges, and growing recognition. There will be no dividend, but the company plans to make its first ever pay-out at this year's interim stage. Farnings per share were 10.6p (9.3p).
The shares rose 5p to 336p

yesterday, up from the April flotation price of 270p. That was seen as aggressive because it rated the stock at 26 times historic earnings.

LEX COMMENT

FT-SE-A-All-Share Index

1902 93 04 95 96

1.500 -

Yesterday's profits warning from Danka Business Systems, the photocopier distributor, has, at least tempo-rarily, halted the dizzying climb of its share price. This looks like a much-needed correction: expectations among US investors, who hold three-quarters of the stock, had been unrealistically high. But even after a 28 per cent slide yesterday, it is still trading at 20 times

this year's estimated earnings, way above the market average of 14 times. This is justifiable only if the source FT Exter sudden slowdown in the company's explosive growth proves a hiccup rather than a step-change in its development. Danka claims the current

setback in profits growth is the result of increased costs due to the rapid expansion of its sales force, which has yet to feed through into higher sales. In other words, the only mistake has been not phasing in the hirings more smoothly. But given the speed of its growth, and its reliance on multiple acquisitions, the worry is that the difficulty it now appears to be having in melding the result into a cogent whole could be at least a medium-term problem.

Still, the company's prospects certainly justify a premium rating. With a market share of just a few per cent in both Europe and the US, there is clearly room for further expansion Margins, particularly in leasing, are juicy, and the competitive environment, both for acquisitions and for business, appears benign. While profits growth of around 30 per cent historically is expected to slow to around 20 per cent this year, even that is more than twice what most UK companies can

M&S to open ninth store in Hong Kong

By Louise Lucas in Hong Kong

Marks and Spencer is to open its ninth and higgest store in Hong Kong in spring next year, taking it a step closer to its goal of 15 local stores by 2000. Asia is becoming increas-

ingly important to the group; it now has 31 stores in six countries in the region. It has also opened a representative office in China. In Hong Kong last year the group's turnover rose 27 per cent to £90.2m, while operating profit increased 22 per cent to £15.6m.

The newest store will be based in the new Plaza Hollywood shopping centre at Dia-mond Hill on the densely populated Kowloon peninsula. Mr Jim MacDonald, M&S regional

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director, calculates that more than 1m people, or one-sixth of the colony's population, live and work in the Diamond Hill

The Diamond Hill site, sold for more than HK\$3bn in February 1993, is owned by a con-sortium led by Wharf, the infrastructure/property com-pany. This marks M&S's third tie-up with Wharf.

Prices for goods in Hong Kong are an average 20 per cent higher than similar goods

in the UK stores. The Diamond Hill site is the retailer's second foray into residential areas in Hong Kong. It began by opening stores in prime shopping locations, but has since opened a store in a

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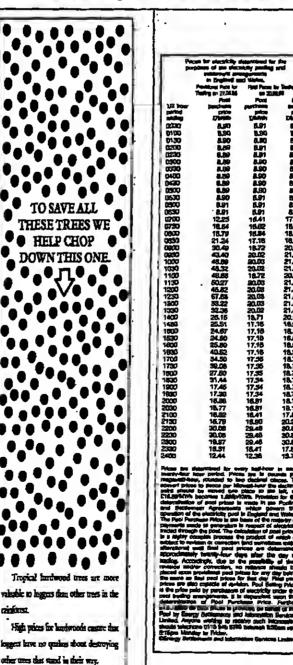
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Financial Times Annual Report Service



followed by the Promestr Grown over several years has made them textus of



PROMODÈS

1. Consistent, Commence - Supermarker C Champion - Insuled ancertown in - Correctmence Shirter, Floop), Codes, 8 & Bulk. - Cash & Corry and ofer: Proteocash, Punthesash, Prodingst. The rapid growth of the Group's but been accompanied by expansion also foreign markets: In particular, rece. Italy, Perugal, Belgiam and Trakey.
Promodés WEB STTE. Intip: Ilwave.promodés.fr



PSA Pengeot Citroen in 1995

The PSA Progeot Caroen Group has held onto its position as the third-largest manufacturer in Europe with a tracket state of 12%. This year saw new development in the Peopest and Caroen ranges. The two makes successively lameled the Caroen Xantia Estate, the Peopest 406, the median-skeed conceneration which obtains whiches the Peopest Expert and Caroen Jumpy and the electric various of the Peopest 106 and Caroen AX.

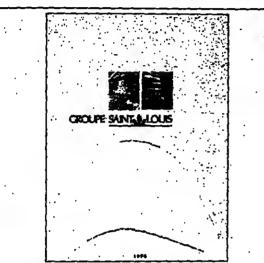
Crossp furnouse reached 164.2 billion Franch Francs, with worldwide production of 1.9 million verticles. Not profit amounted to 1.7 fellion Franch Francs with an operating margin of 3.8 billion Franch Francs. The group is once again France's major exporter, with exports to the value of 74.5 billion Franch Francs.



ROUSSEL UCLAF

despite measures taken in various countries to commit healthcare spending, and despite the weakness of several currencies, notably the dollar, against the French franc. The narrease in comparable net meante shows an improvement in profitability, it, a nearly of time accome efforts to

In 1995, Roussel Uchs timed a decisive point in its beauty, being new tied to Hardes Manie Research. This new country to one of the world's top phoromorous all fonts and is set on becoming the global matches one. Consolidated sales: FF16.5 believe. Comparable net mounte. FF1.2 believe.



SAINT LOUIS

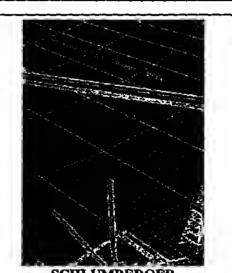
An international industrial group - We aim to boost productivity in all our ses in order to create a sound basis for expansion. We have the determination and the mesos to pursue an ambitious growth policy.

Two businesses: agri-foodstuffs and paper - Through Ginérale Sucrère, Saint Louis generales a tomover of FRF 6.2 billion; it generales FRF 1 billion in turnover with Royal Champignon and it owns 34.5% of ready meals maker Patterlint, with a humover of FRF 8.4 billion, - Through Arjo Wiggles Appleton, one of the world's leading paper groups and Europe's matther one distributor of graphic papers. Saint Louis controls a tamover of FRF 28 billion.



SANOFI

armagninest within an accreasingly challenging operating continuous, motival the Computer is register a shartful lucrouse in approxima profits up by 21 per cent, and a 19 per cent, one in not carriagely to FEF 1.575 billion in 1994, before one-operating learns, while parasing the development of major components. Shirt by the Hamon Bandhaten express took by most than 6 per cent to FRF 1.82; billion, at constant exclusive care-operation. In the most than 6 per cent to FRF 1.82; billion,



SCHLUMBERGER An international company providing products and services in two areas,

An instruction company providing products are services to enhance their efficiency in all
phases of exploration and production of oil and gas reservoirs;
 Measurement & Systems, world leader in manufacturing of water, gas and
electricity meters, also provide systems and services for assomatic payments and
automatic test equipment systems for electronic components.

1995 key figures (5 million)



SCHNEIDER SA

The Group bus 100% control of its subsultaries;

Schoolader Electric, a global specialist magnificturer Incused on electrical distribution, industrial angitud and materiation products and services, with three main brands. Mertin Germ - Square D

Spic Balipuolica, a global specialist fi craced on electrical contracting and





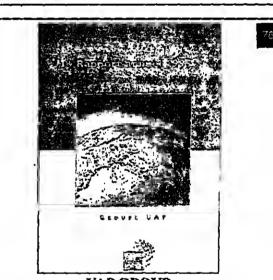
SEFIMEG

Succe its creation in 1965 Seferage has been one of the main property companies quoted on the Parts Bourne. Its business activity crosseds of the acquisition and rental of premises mainly for rendential use. The property of Seferage and its subsidiaries is today composed remaily for relational life. The property of Setting and a monains is found component of 8.256 residential properties, 106 48°m; of office space, 56,335 m; of retailed spaces 48 024m; of commercial property and 11,817 parking spaces. The average level of occupation in 1995 was 98% for residential property and 91% for offices and commercial property. The consolidated restal revenue runs to 601 million francs. The dividend proposed as the Onlinery General Meeting on the 20 June is 14.20 france per where, is a global coupus of 21.30 france including tax credits.

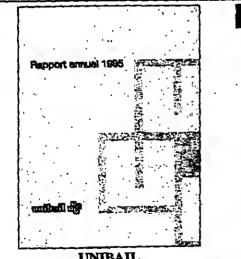


to line with FY 1994, SIDEL registers for 1995 a record growth with a consolidated introver successing by 44.5%, to FFF 3.704.3 million, and strengthens in worldwide leadership for blow molding machines for FET bother. The high professible of the Coron is manufacted into lacener, and the coron of the co awayd larve been 10.5%. Net thretend in FRF 16,50 1+34 4%, considering the 1 for 10 borns inon assessed on September 1, 1995.

policy of the Group - smaller puckaging, frust judge, beer, asceptic, ultra-clean, as particular - confact the solid growth posterial of SIDEL.

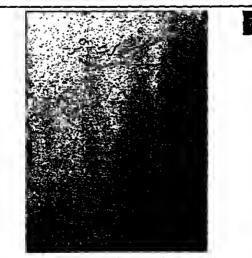


hade. 1995 nate a tepsion were for to its set instarr und, in our open inhorizable increment, we made property towards improveing the profession of our instance. Bougure Friedmann, Charman in 1995 the UAP Great was the finishme truckes on its European network and controlled the use absolute of an enterior into profit creates. Since bounding profitability was the trip priority, LAP combined seriouslying its international network through business combinations, mergers and deposits. At the came unit, a number of co-operation agreement, were agreed to broaden the Group's option of actions. Lastly,



UNIBAIL

UNIRALL is one of the major property companies included in the 5BP index of the 130 leading shares tasted on the Paris Stock Exchange. Its property perfolio, which is well balanced between shopping centres and Paris office buildings, has been valued by independent experts at FP, 16.3 billion. Following a succession of acquisitions, 1999 was dedicated to compiliation, with two mean events, the statement in the accounts of all the property assets at their market value and statement in terroget. Further temproversant in nex profits at FFT-205 turificm allowed, this paramers in strategy scrking to schieve toght yields and capital gains through a dynamic management of in property portfolio. year again, a hapter dividend of FFr 26 per store to be paid tagainst FFr 27 last year). UNISAIL



USINOR SACILOR

income from ones

VALEO

Valeo is an independent automotive components and systems supplier and a car and track magnifacturers world-wide. Valeo is present in all the key auto-

America and in Asia Key figures: Total workforce: 29,600 people Net income: 4% of sales Net indebtedness: 2% of stockhol

Chairman & CEO: Notil Goutate



INTRUM JUSTITIA

Intrum Justitia is the largest debt collection company in Europe, offering a range of Inkasso and credit management services. The group is listed on the London Stock Exchange and has subsidiaries in 15 European countries, complemented by a network of 120 agents worldwide. In 1995, pre-tax profits were £15.6 million on turnover of £86.7 million. At the year end, intrum Justitia had over 50 000 clients and more than 1,000 employees.

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By Kenneth Gooding, Mining Correspondent

Central banks can be expected to be more active in both the primary and secondary markets for gold and to respond more quickly to market demands in future, according to Mr James Cross of the . Crosswords consultancy.

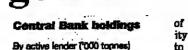
Mr Cross, between 1987 and 1995. was general manager of South Africa's Reserve Bank and he recently completed an informal survey of a number of bullion banks which revealed the relationship between the gold market and central banks has been changing signifi-

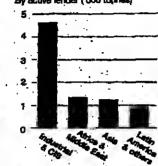
For example, the secondary, or deposit, market - which helps to provide liquidity for gold forward sales and hedging operations - has more than doubled in size from 900 to lates that the total potential tonnage of gold held by central banks willing to take part in this business is 7,900 tonnes and the average they had on deposit at the end of last year was 27 per cent.

Mr Cross's research shows that the average time the banks are willing to put their gold on deposit is lengthening from three to six months but very few central banks will deposit beyond one year. Mr Cross insists, however, "this would change if linterest or lease] rates were more attrac-

When lease rates shot up in December last year some new central bank participants were attracted into the market. Banks are now prepared for and ready to respond more rapidly to changes in the lease

rate," he suggests. Mr Cross says that, although central banks usually have the capability of helping their domestic banks with liquidity in times of stress, this may well not be the case where gold is concerned, either because they are not active in the deposit market or they do not wish to deposit a higher pro-





portion of their reserves in the market. The extreme tightness in the deposit market at the end of last year "put a number of hullion banks under liquidity pressure and ultimately led to at least one bank ceasing bullion operations".

Mr Cross suggests that in the primary gold market the central banks are likely to sell some gold "when domestic needs arise". He says there is an increasing need for an official selling mechanism to be established which would help large central bank gold fransactions to be executed.

His research also showed that central banks are increasingly using derivatives in some form or another to enhance the quality of their reserve asset management and "we can expect to see a knock-on effect in the gold derivative mar-

NZ dairy exports flourish in Latin America The region now accounts for a quarter of the sector's overseas sales, writes Terry Hall

Outh America is rapidly Decoming one of New Zealand's most important markets for dairy produce. Five years ago New Zealand sent minimal quantities of dairy products to the major Latin American countries, but in the past year over NZ\$1bn (US\$650m) worth of products were shipped there, and the Dairy Board believes the

Latin America now takes 25 per cent of all New Zealand's dairy exports - a similar percentage to Asia, a market New Zealand has been struggling to develop for many years. Unlike Asians, who tradition-

trade will continue to grow

ally used few dairy products and needed to be encouraged to buy them, South Americans have always counted dairy

goods as a staple part of their aged under 20, the industry is diet.

iet. forecasting continuing growth
New Zealand dairymen have in this market, and trade minknown of the potential of Latin America for decades, but trade barriers and economic problems encouraged the industry to seek markets elsewhere. Now, however, the success of the Chilean economic recovery has spread throughout South America, and with it trade liberalisation.

Brazil is the scene of one of the New Zealand dairy industry's most dramatic anccess stories. For years Brazil banned dairy imports, declaring itself to be self-sufficient. The New Zealand Dairy Board was quick to exploit the opening of this market, and trade has grown from nothing to around \$50m in a little over two years. With half of Brazil's population ister Philip Burdon will shortly open a Brazilian office for board subsidiary New Zealand

Rather than compete in the bulk commodity sector with other dairy producers, such as Uruguay and the European Union, New Zealand has decided to concentrate on the value-added specialist food sector, especially ingredients for the fast food and related processing industries. This will include such things as yoghurt and confectionery.

Milk Products Brazil.

Board spokesman Neville Martin sees exciting potential.
"We can see Brazil becoming one of our most important pared with the record \$3.60 for the season to June 30. Mr Marmarkets in future," he says. "The population growth there

is enormous: it is really one of tin says the board does not expect any substantial lift in last great frontiers, and it was prices this calendar year. Howoff limits to us for years. ever, he adds, there is no sig-

FINANCIAL TIMES THURSDAY JUNE 27 1996

Staff numbers in Brazil have grown to 12, with an emphasis on technological expertise. Later on the board will concentrate on developing branded products including cheese. As part of its expansion in Latin America, the board has recently bought manufacturing and packaging companies in Venezuela, Chile and Mexico.

Zealand has become the major supplier of dairy products to The board this week warned farmers to expect a 15 per cent drop in returns to around \$3.20 a kilogram in the coming sea-

son, beginning July 1, com-

Over the past five years New

for hutter, in part because of lower sales to Russia. Prices of milk powder have stabilised. but casein powder and cheese prices are soft. Mr Martin says that although most prices have fallen from the high levels of

nificant stock building under

way, or surpluses in sight,

There has been a sizeable

drop in the international price

which is a promising sign.

six months ago they remain at satisfactory levels. He attributes the health of the industry largely to the successful implementation of the General Agreement on Tariffs and Trade settlement over the past

Growing band of cashmere producers trades on scarcity value

Alastair Guild on problems an opportunities in an industry producing one of the world's most sought after fibres

exclusivity and rarity bave given it a cachet to add to its softness and durability. Now the European cashmere industry is concerned that, before long, its supplies of raw cashmere from the East might dry up altogether, absorbed hy the rapidly developing fashion industries in cashmere producing

The rising incidence of contamina-tion of cashmere and the misleading labelling of garments as "Cashmere are indicative of the material's increasing scarcity and potentially damaging for its name.

Price swings of 20 per cent have become guite common, but the overall price has more than doubled in the past three years, reaching \$150 a kilogram of ready-to-spin cashmere, ten times the price of the finest lambs wool.

European manufacturers see closer links with producing countries as one way of securing greater continuity of supply. China has the largest population of cashmere goats, 60m concentrated in Inner Mongolia, but also spread across northern provinces and Tibet, China produces 5,000 tonnes off Cashmere

There are 8.5m cashmere goats across the border, in south and west Mongolia, up 3m over the last four years. Mongolia now producing some 2,000 tonnes of hair, yielding more than 1,000 tonnes of spinnable cashmere. Afghanistan and Iran together produce some 2,000 tonnes but, on

erage, only 20 per cent of the hair

of these fleeces is useable.

each year, half of it suitable for spin-

China has concentrated on breeding for fineness, length and pure whiteness on goats that thrive in the very hot summers and extremely cold but dry winters of the Mongolian and Himalayan regions. The hosiery trade pays a premium for fines pure-white cashmere, which it can turn into garments of an almost infinite variety of pastel shades.

Mongolia's cashmere, though slightly coarser, is also used in hosiery. Cashmere from the Afghan and Iranian area, which is coarser and rougher still, is used mostly by the weaving trade to make coats, scarves and accessories.

China has been moving rapidly on from being simply a producer of raw cashmere. The first step is "dehair-

ing", a complex process of separat-

ing the goat's coarse "guard-hair" from the soft undercoat of cashmere. Some large enterprises have added dying, spinning, weaving and knit-ting and garment finishing in the past three years. Between 60,000 and 70,000 Chinese are now employed in downstream husinesses associated with cashmere.

The Chinese have created a middle market for cashmere garments and hlends of cashmere and other fibres at lower price levels, selling particularly into the private label - as distinct from branded - husiness, overseas but increasingly for the domestic market, which now accounts for 25 per cent of sales. This is absorbing more and more of China's cashmere. China's garment industry could conceivably be using up the country's entire production within the next three years, say some analysts.

"We went into China to conserve our source of fibre supply," says Peter Forrest, managing director of Dawson International, which 18 months ago entered into a joint venture with Luyuan, the second largest Chinese processor. "It was clear the Chinese were going to develop downstream and we wanted to be part of that, to influence the process rather than being increasingly isolated." Mongolia has recently started to attract significant interest from foreign investors also. Cashmere is its second most important export after minerals. The Mongolian government banned the export of unprossed fleeces in 1994, in an attempt to hring foreign investment into downstream activity, stipulating that exported material should at least be dehaired. The ban is likely

to be lifted this year, but the aim of

the Mongolians remains to add

ts Gobi factory is claimed to dehair 25 per cent of the world's raw cashmere, also making garments and hlankets. Italian company Lora, which has already sold processing machinery to the Mongolians, is planning to add to this spin-ning and weaving capacity. Several US and British companies are also establishing or in negotiations over possible joint ventures.

Given the high world price, European farmers increasingly see cashmere as a serious prospect for diversification. Italian, Spanish and Czech as well as UK farmers now have animals resulting from a 10 year breeding programme on the Scot-land/England border. Other European Union and eastern European countries are expressing interest in these animals, the product of crosses of UK feral goats and goats from Iceland, Tasmania, New Zealand and

The current UK cashmere goat berd of 5,000 animals produces under a tonne of spinnable dehaired cashmere, but of less than 16 microns diameter, similar in fineness to Chlnese cashmere hut with a greater length. "The UK would need a berd of 2m breeding females to be com-pletely self-sufficient in cashmere," says Dr Angus Russel, of the Macaulay Land Use Research Institute who is co-ordinating a 3-year EU research programme into cashmere goats. "But that number of goats would replace only about 8 per cent of the national sbeep flock, by no means a ridiculous objective for the long term." Goats are complementary to sbeep and, properly managed, will improve the quality of their grazing. Norway and Greece are both interested in keeping goats for milk and cashmere, Cashmere goats from the UK breeding pro-

JOTTER PAD

yields comparable with the general goat population in southern Europe. There would also need to be a significant market for goat's meat in the UK to make a large cashmere herd viable. Some ethnic minurities already huy some and Sainshurys is now stocking it in three of its southeast stores on a trial basis. Most critical of all is likely to be way the government decides to allocate subsidies, says Dr Russel.

Annual premiums and bill livestock compensatory allowances are available in many European countries for goats as well as sheep, but in the UK are confined to sheep. With subsidy removed, the gross margin for bill ewes would be clearly less than for cashmere goats, according to research by Edinburgh University's Institute of Ecology and Resource Management. "Higher numbers and volume of fibre and meat throughput is likely to result in a drop in unit cost per goat and higher output prices for fine fibre." says the research report, "The development of European rural fine fibre enterprises would go along way to satisfying the objectives of the EU's initiative for rural development."

COMMODITIES PRICES

BASE METALS LONDON METAL EXCHANGE

	Cash	3 miles
Jase	1474-5	1511-2
revious	1473.5-4.5	1511-2
ligh/low		1515/1506
M Official	14 69-9.5	1506-6.5
lerb close Den int	239,256	1512-3
otal daily turnove		
ALUMINIUM AL		
Hose Inevious	1256-65 1260-70	1295-300 1295-300
lightlow	1200-70	1300/1290
M Official	1255-6	1290-1
arti close		1295-800
open int.	5,177	
otal daily turnove		
LEAD (\$ per ton		
Anse.	775.5-6.5	785-5.5
revious lighters	789-90	795-6 792/785
ligh/low M Official	780.5-1.0	789-90
Certo close		789-90
Open int.	33.907	
Total daily turnove		
NICKEL IS per I	tonna)	
Close	7469-75	7580-90
Previous	7540-50	7655-80
High/low AM Official	7435-40	7530/7550 7551-3
verb ciose		7610-20
Open mL	42,135	
Total daily turnove		
TIN (\$ per tonne	a)	
Close	6180-90	6220-25
Previous	6235-45	6260-65
High/low AM Official	6205-10	625/6220 6240-45
Kerty close		6230-40
Open mt.	15,757	
Total daily lumove	_	
ZINC, special b		
Close	1004-5	1031-2
Previous High Yow	1002.5-3.5	1031-1.5 1033/1029
AM Official	1002-2.5	1029-30
Kerts close		1033-4
Open Int. Fotal daily turnove	69,886 8,054	
COPPER, grade		
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terious tighylow	1825	1838-40 1815/1770
AM Official	1830-35	1785-90
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	1.95 67.30 65.40	107 1,180
	55 87.20 85.50	48 1,006
Nov 87.20 +3		
10 53 1 8720 +3		16,568 60,844

I LONDON BULLION MARKET

Day's High 384,30-384,70 Day's Low 383,30-383,70 Prenous close 384,70-385 10

1 month

रे तंत्रकातिक

Silver Fix Spot

3 months 6 months

Gold Coim

1 year

\$ price 383 30-383.70

384 00-384.40 384 00 383.60

Loco Ldn Meen Gold Lending Flates (Vs USS)

p/troy oz. 334.05 338.20 342.50 350.85

\$ price 383-386

£ equiv.

Precious Metals continued GOLD COMEX (100 Tray az.; \$/tray az.) 384.6 23,236 87,799 387.5 189 7,734 390.0 1,199 36,935 PLATINUM NYMEX (50 Troy 02.; \$/troy 02.)

-26 3940 3920 3.434 5.332 -24 3965 3835 3.439 18.500 -24 396.5 388.6 1,111 2,089 -24 - 152 2,205 -24 - 4 30 M PALLADRUM NYMEX (100 Troy oz.; S/troy oz.) 133.95 +1.25 134.50 132.70 3.707 7,007 134.95 +1.25 135.00 134.50 56 830 135.95 +1.25 - 106 -SILVER COMEX (5,000 Troy at.; Certs/tray at.) -8.4 515.5 515.5 2 1 -8.2 514.5 504.0 19,387 33,981 -9.2 - 17 -9.2 520.0 510.0 13,824 42,184 -9.2 527.0 518.5 2,837 17,400 -9.2 538.0 626.5 11 5,438

ENERGY CRUDE OIL NYMEX (1,000 barrels, \$/barrel) 6,419 42,778 1,241 26,650 515 22,253 1,550 33,617 773 20.892 40,794 350,475 E CRUDE OIL IPE (\$/barrel) 18.48 18.18 14.547 81.676 17.98 17.70 6.668 34.505 17.52 17.39 2.069 19.517 17.27 17.19 658 5.465 17.10 17.01 12.71 12.192 16.90 18.87 950 11.734 23,767 161,485 HEATING OIL NYMEX (42,000 US gats; c/US gats.)

Letent Ony's
price change High Law
52.25 +1.08 52.45 51.17
52.40 +0.90 52.65 51.50
52.85 +0.85 53.10 52.55
53.10 +0.55 53.10 52.55
53.80 +0.70 53.80 53.25
54.21 +0.55 54.20 53.75 7,625 12,828 4,864 21,146 1,027 9,418 327 5,800 178 6,751 798 18,258 18,137 95,932 +1.25 162.25 160.50 219 3.311 +1.25 161.25 160.50 219 3.311 +1.25 162.25 161.50 70 1,805 +1.25 162.25 161.00 84 9.532 m 55,359 160 25 +1.00 160.50 159.00 2.695 +0.026 2.675 +0.006 2.645 10.982 39.535 2.655 2.887 20.821

2,724 17,050 1,222 12,230

- 2,685 2,685 0,003 2,700 2,685 - 2,730 2,720 0.003 2.700 2.685 1,222 12.200 - 2.730 2.720 1,104 14.695 - 2.735 2.720 628 10,256 2.730 WAILEADED GASOLINE
WHEE (42,000 US galls; clus galls) US cts equiy, 514.75 521.00 527.80 541.25 +0.00 +0.23 +0.48 +0.21 +0.26 9,981 13,611 4,989 21,927 1,195 6,949 160 3,382 20 1,221 45 1,502 57.25 55.20 54.05

GRAINS AND OIL SEEDS WHEAT LCE (E per torne) -0.25 111.75 111.75

119.75 -0.65 120.25 119.75 WHEAT CST (5,000bu min; coms/90ts bushel) 482.50 -9.75 501.00 482.00 8,471 18,258 485.75 -8.00 922.00 485.00 8,814 27,379 506.25 -10.50 515.50 7,267 25,177 505.75 -10.50 515.50 955.00 38,00 472.00 -8,75 480.00 477.00 14 121 430.00 -4,50 431.50 428.00 40 1,761 7,761 MAIZE CST (5,000 by mire cents/55th bushel) 477.25 +6.75 480.00 470.00 28.348 52.579
358.75 -4.75 394.75 395.25 13.853 70.964
364.25 -2.75 357.25 357.00 22,723 167,806
362.60 -1.55 362.00 358.00 971 23,883
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PREMIAT (BOFFER) LCE (\$10/mass point)

1215 1216 1149 1142 1140 1140 1252 1250

Nuts and Seeds
Prices from Kenkle Group; US\$ a torms. Iranian platachies 28/30 raw (in shell) naturally
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MEP, steady. US almonds (phelled), tight availability for 1995 crop; New crop 18/20 NPS
5,510 FAS California, September/October shipment. New crop estimates advised tomportow.
US wolnuss LHP 20% - 1995 crop 5,600 FAS
California; new crop 5,069 September/October
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YOLUME DALA Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CST, NYCE, CME, CSCS and IPE Crude Oil are one day in arriens. Volume S Open interest totals INDICES # REUTERS (Base: 18/9/31=100) 2010.B 2117,0 CRB Furnies (Sese: 1967=100) Jun 24 month ago year ago 249,02 na na Jun 25 247.71 247.71 249.02 (12 GSCI Spot (Base: 1970=100)

MEAT AND LIVESTOCK I LIVE CATTLE CIME (40.000 bs; cores/for

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74,675 +2,000 74,575 73,250 1,039 72,200 +2,000 72,200 70,500 1,383 76,900 +1,325 77,350 74,900 227 77,500 +0,950 17,500 76,750 2 79,475 +0,025 70,500 73,000 3

LONDON TRADED OPTIONS - ALLBUNKEN 165 101 58 1400...

COPPER Oct 199 149 109 8 30 85 99 147 204 1700... Nov 79 69 61 E COCOA LCE BRENT CRUDE IPE 39 27

LONDON SPOT MARKETS

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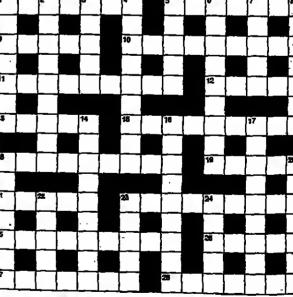
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Gold (per troy oz)\$
Silver (per troy oz)\$
Platinum (per troy oz.)
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Soyabeans (US)
Cotton Outlook A' Index 815.0w \$492.5z \$531.0w 216.0 89,49c 429p Wooltops (64s Super)

CROSSWORD

No.9,105 Set by CINCINNUS



ACROSS I Unsophisticated note (7) 5 Wine lake - British and Euro-pean leaders' bloomer (7) 9 Failing a test makes sense (5) A sweet girl (9) 11 Eighteen rounds initially served in golf-club restaurant 14 Doctor eats filth? C'est la vie!

12 Scope for chain (5) 13 The decree of the dictator (5) 15 Hosiery container in perilous 17 Don't indicate so much that's situation (5,4) 18 is it possible that savers upset 18 Risk taken by Labour leader an election worker? (9) an election worker? (9)

19 An Insect bite isn't terribly 20 Officer - dope with real grand (5)

grand (5)
21 Childless prince in Provence
22 Help towards understanding 23 Mountebank taking tes round 23 Utter confusion in church part of South Africa (9) when duck enters (5) 25 Apprehending son acting 24 Rope, see, catching animal (5) badly (9)

26 Always poetically following street guide (5) 27 Correspondence from landlords? (7) 28 America is taken in hy per-verted oral stimulation (7)

1 Prominent or incompetent (7) 2 islander with sun craze get-ing brown all over (9) Dances held somewhere else

Solution 9,104 STOCKS UNDERDOOD

G B H G I I V

NOSTEL SWEETEST

LORDLING REPRECE

A V B S P N I R

ANCE FILLETS

DILEMMA TRIO

A S R R R R

DILEMMA TRIO

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5 A king, held in reverence, is

Admit having left school (3.2)

8 Mount seen the day before the

(5,4) 16 Giant fish, note, approaches

Italian city (not capital) (9)

6 Replanting

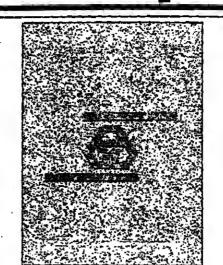
others (7)

Financial Times Annual Report Service





Almazy Rossii - Sakha Company Ltd.



CAIXA GERAL DE DEPÓSITOS

- Not Assess PTE 6.098 billion (up 10.92 over 1994);
 Total Departs: PTE 5.539 billion (up 11.29);
 Loom and Advances: PTE 4.403 billion (up 14.09 c).
 Not Increase for the Year: PTE 58 billion (up 14.29 c).
 Solveney Ratio: 139.



PT BANK DAGANG NEGARA (PERSERO)

The BDN's current activities were a continuation of the Nederlandsch Indische The BDN's current activities were a continuation of the Noderlandsch indicate Excompto Mastachapit's branking operations exhibitshed in Jakaru in 1887. The nume was then changed into Escomptobouk NV in 1949 and further into PT Escomptobank in 1958. PT Escomptobank was introducted and fuguidated bearing the name BDN as of April 11. 1960. The legal states of BDN is use-owned Bank! became PT Person, meaning state limited liability crempany. At present, the bank has 8,738 employees, and 197 offices (Incl. 5 overseas offices) and it is among the fifth largest bank in Indonesia. The summary of the statement of condition of December, 1995 (Billion Ruptah) is total assent 77,609, deposan 14,650, forms 20,079, and profits before tax 236.



ROSTELECOM - means Skill to Work Rostelecom is...

- largest Russian currier holding 95% of country's long distance market strong and reliable partner of more than 200 international catriers and 100 Russian local

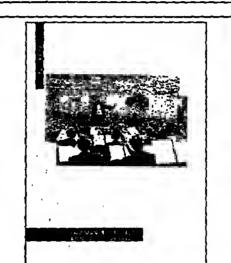
CROSSWOR

 largest world digital scleenin highway which completes the global selections are store loop macromorest standards, or sends and features reports, professional stock market approach Routelerum is a respected, reliable and fast growing Russian company



LIPPO BANK

Liono Bank, established in 1948, is one of Indonesia's leading commercial banks with a network of 290 offices in 98 ciries throughout Indonessa. As part of the Lippo Group of compenies, it has subsidiaries, affiliates and representative offices throughout the Asia Pacific region - in Hong Kong, China, Philippines, Thailand, Singapore Mulnysia, Vietnam, Australia and California - and joint venture alliances in Indonesia with eminera bunking names such as Banque Nationale de Paris, Tokai Bank, Daiwa Bank, Bankers Trust and GMAC. The shares of Lippo Bank are actively maded on the Indonesian stock exchanges.



GUTA BANK

ied set of services comprising non-tradmonal area. This necessive pursuper minute or trainp of the Rush in Osta Financial Group which unless companies of variously all husiness As of Jerusny 1, 1996 Gate Stank in mind 37th in terms of states (USD 409 multion) and 30th i terms of credimentalness among 100 stajon Russian banks ("Ipvestrja", April 30, 1996). It is the policy of the flank as strengthen its stability and to eliminate major ratis for as customers. The first step in the direction is the formation of fully paid in authorized capital of USD 60 milhon which



PT Polysindo Eka Perkasa

The company has rapidly grown as a leading integrated chemical and really monufacturer in the Far East. The company is listed on the Jarkana Stock Exchange and has an equity of 1,103 multion ordinary shares and other the proposed rights assected in memors to 2,208 million shares reflecting a market expitalization of IDR of 2,76 inflion. Consolubited Operating Resease one to to IDR 971 billion and Consolubated Net Income Interessed to IDR 213 billion in 1995, increase of 95.31% over the previous year. The company is in the final stages of completing a major expansion program to increase its production expansities to 330,000 toos of polyetter chips. BOURD ions of emple fiber, 340 Det toms on PTA and 27% million yards of serule h



MOST-BANK

Mindistant, the financial core of a large holding company, has more than 20 branches in Russia, and representative offices in Londain and Madrid. It is audited by Price Waterhouse and rated among Russian banks of the Highest Reliability Group, in 1995 the nearly gress 1,5 times totalling 3,537,344.8m Rbi (77.5m USS), and a total equity increased 7.9 (masket-maket in government securities market. Most-Bank also provides and a major market-maket in government securities market. Most-Bank also provides propert increes with a stress on teal estate development. Its large correspondent banking network comprises major banks in all principal financial centres. In a rapidly changing economic and legal errormment the bank renders contuiting services to professional investors in Russian emerging financial markets.



PT INDOCEMENT TUNGGAL PRAKARSA

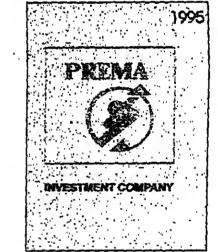
Since it's founding in 1973, Indocrement has become one of Indonesia' most profitable corporations, involved primarily in cement production and food manufacturing. Both PT Indocrement Tunggal Praisaria (Indocrement) and PT Indofood Solnes Makmur (Indofood) are emongst the largest companies listed on the Johann and Stralay's Stock Eachanges. The company has over 27,000 dedicated employees in in employ m of the end of 1995. recompany can over 47.000 december exproyees to an employ 80 of the end of 1995.

The Group's ner revenue in 1995 was Rp. 3.342.3 billion cap 16.4% on 1994) reflecting improvements in both the centent and food divisions. Grous profit and operating profit transgers in 1995 were 36.5 and 26.1% respectively and the Group's earnings per share for the your ended 1995 improved to Rp 394 from Rp 305 in 1994.



THE RABOBANK GROUP

Ranking among the top 10 banks in Europe and top 50 worldwide, this strong Datch Orous comprises the co-operative Retobank, assurer Interpolis and leason/factor De Lage Landen.
With assets of NLG 293.5 billion and inajor despessor market shares in both retail and corporate sectors, it is increasingly expanding into international markets where it corporate sectors, it is increasingly explanating into international markets where its unparalleled food and apribusions expertise is offered to clients through its extensive network in 3G countries. The Group brings a full range of banking, insurance, learing and factoring products to cheeks both at home and abroad. Repotents has gained a reputation for creative corporate finance as well as foruncial market and investment banking activities, trust



The independent Russian company PREMA INVEST was created in April 1993 and began working in the emerging Russian share market. PREMA now occupies one of the top positions on the share market. Today PREMA powerses a strong brokerage network with branches in St. Petersburg, Ekstermburg, Tyunnen, Surgut and works successfully in the branches in 51. Petersoning, exactmoning, systems, soing and comes successarily in the following scenaric brokerage and trading operations; investments and administration of projects; consulting service out unweatherns in Russia; assets and portfolio management. Our monthly turnover exceeds 25 million dollars. We aim to organize long-term cooperation, and do not also for short term profit. The success of our Clients is also the



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RAO GAZPROM

Rao Gazprom is the world's biggest producer of natural gas. Established in 1992. Main areas of activities; • Onaborc and offshore geological survey • Exploration and development well diffing - Gas, gas condensus and oil production, transportation and distribution - Underground gas storage - Gas experts - Gas usage as motor fuel - Research and development - Gas/gas condensus processing; production of liquid RAO GAZPROM produces 44 per cent of gas in Rossis. Russia's share in world gas



OVERSEAS UNION BANK

Overseas Union Bank (OUB) is a premier consumer bank in Singapore and a leading regional bank. The OUB Group's international network of 74 offices in 16 countries provides a full range of services in consumer and corporate finance, treasury, international and tovestment banking. Established in 1947, OUB is today the fourth largest Singapore bank and the fifth largest commercial bank in ASEAN. Its group abareholders's funds stand at SS2.94 billion and total assets amount to over \$\$28,47 billion trigures at 31 December 1995).



SOLVAY GROUP

A Passion for Progress - Solvey is an international Group of chemical and pharmscentral companies with total sales appointing to USD 9.3 billion to 1995. Solvey operates in 44 commiss, employing more than 30,000 employers spread across more than 400 establishments. The strategy followed by Solvay is to be a world leader in its five sectors of activity - Alkalis. Peroxygens, Plastics, Processing and Health, to improve the quality and added value of its products and services through continuous and cost-effective intervation - whate also opening new geographical markets for them, meinly in the USA, Asia and Central Europe.

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Euro 96 puts gilts FRN auction in the shade

By Antonia Sharpe in London and Lisa Bransten in New York

Apart from a successful auction of £3bn worth of floating-rate notes by the Bank of England, activity in the UK gilts market came to a virtual standstill yesterday ahead of the Euro 96 football semi-final between Germany and

England. Liffe had one of its slowest days this year, with a mere 14,000 contracts traded in the September long gilt future. Trading in several pits ceased for a few minntes at 2.30pm to allow dealers to sing the Euro 96 anthem.

Traders are more interested in UK-Germany goal differentials rather than yield differentials today" said Ms Alison Cottrell, international economist at PaineWebber.

With the market focusing on football rather than fundamen-

tals, gilts were little changed and even the auction became a sideshow, said Mr Simon Briscoe, UK economist at Nikko. The September long gilt future traded in a narrow range, ending down 🔓 at 105%.

The anction of five-year FRNs was covered 4.5 times, a bealthy result reflecting the broader appeal of these instruments compared with conventional gilts. FRNs can be used in the money or repo markets, as well as in swaps-related transactions. Yesterday's offering was also bought by institutional investors seeking a

home for their excess cash. Mr Briscoe said the large cover on yesterday's anction would encourage the Bank to bold more FRN auctions in the months ahead. He added that this strategy would support the conventional gilts market because it would reduce the supply of such paper.

■ German bunds also traded in a narrow range ahead of today's Bundesbank council meeting, its last before the summer break. On Liffe, the September bund future eased 0.08 to 95.22 in turnover of just

over 69,000 contracts. Analysts do not expect any policy changes from the Bundeshank, in spite of better than

GOVERNMENT BONDS

expected inflation data for June, although some thought it might change the repo rate from fixed to variable.

PaineWebber's Ms Cottrell said that even if the Bundesbank were to switch to a variable rate, it was likely to keep the repo rate at 3.30 per cent. In her view, the Bundeshank would resist lowering the repo rate until the third quarter.

when such action would be Paribas, said Mr Pazio's com-needed to take the heat out of ments had dashed hopes of an a rising D-Mark

■ Italian bonds suffered a setback after comments by Mr Antonio Fazio, the Bank of Italy governor, that conditions for an interest rate cut have not yet been met. The September government bond future fell 0.21 to 116.48 in turnover of

27.715 contracts.

The market has been driven higher in recent months by optimism that lower inflation would trigger a cut in Italy's discount rate, which has been unchanged at 9 per cent for more than a year. Preliminary June data pointed to inflation falling to around 3.8 per cent but Mr Fazio indicated yesterday that a cut would not be forthcoming until the data were confirmed on July 5.

Mr Graham McDevitt, inter-

national bond strategist at

early cut of To basis points and the market was now hoping for a more modest half-point cut. Mr David Brown, chief European economist at Bear

Stearns in London, said the refuctance to cut rates could be counter-productive as it could force the lira higher against the D-Mark. "There is a strong argument to cut rates sooner rather than later," he said. However, be forecast that Italy's yield spread over Ger-many would continue to

to about 250 hasis points from the current level of 365 points. **US** Treasury prices were only modestly weaker in early afternoon trading despite new supply due from an afternoon auction and a stronger than

expected report on durable

NEW INTERNATIONAL BOND ISSUES

goods orders in May.

tighten over the coming weeks.

Near midday, the benchmark 30-year Treasury was down in at 87 to yield 7.045 per cent, while the two-year note was unchanged at 99%, yielding 6.284 per cent. The cash market was supported by gains on the futures market, with the September 30-year Treasury bond

& stronger at 107%. Prices dipped briefly in early trade after the Commerce Department said durable goods orders rose 3.3 per cent in May, much more than the 1.9 per cent increase most economists had expected. Most of the rise was attributed to a jump in aircraft orders, and some econcentsts said that excluding air-craft, the figures showed the economy to be growing rela-

tively modestly.

Later in the afternoon, the Treasury Department was due to announce the results of its auction of \$12.5hn in five-year

Hopes of political stability lift prices of Russian debt

Capital Markets Editor

Prices of Russian debt traded on the secondary market rose further yesterday, amid optimism about the prospects for political stability ahead of next week's presidential elections. Dollar-denominated Vneshekonombank debt, the most widely traded Russian paper. fell marginally, but at a bid

EMERGING MARKET BONDS

price of 49.125 it is almost 20 per cent higher than immediately before the first round of the election earlier this month. Meanwhile, DM-denominated Vneshekonombank debt rose by 0.625 in London yesterday, lifting the price for buyers to 53.875, while MinFin bonds. which have risen by less than Vneshekonombank debt in the last few weeks, also rose sharply, with one tranche of the bonds, which matures in 2008, gaining more than a cent

to 46.625 by mid-afternoon. Dealers in London reported a hig increase in volume, with emerging market funds, hedge funds and investment banks all active buyers.

Mr Robin Hubbard, senior economist at Chase Manhattan, expects yields on dollar-denominated Vneshekonombank to fall by around 100 basis points from their present levels of 17 per cent.

There was a lot of uncertainty about what would happen in Russia. As this eased following Mr Yeltsin's victory in the first round, it became clear that Vnesh debt was an undervalued asset," he said. Enthusiasm over Mr Yeltsin's political prospects also appeared to buoy investor sen-timent towards other emerging market debt yesterday.

8.23 8.48 8.48

7.42 8.20 8.27

8.24 8.50 6.51

8.29

Merchant Bank emerging country debt index (which includes dollar denominated Vneshekonombank debt but not MinFin bonds) had risen by 0.5 per cent to reach 147.18. The average stripped spread of Brady bonds over Treasuries (the yield on the Brady bond price less the price of the zerocoupon Treasury which provides its collateral) had narrowed from 781 basis points at the end of May to 761 basis points, its lowest level since

December 1994 . Mr Peter West, economic adviser at West Merchant Bank said that it was "difficult to avoid the impression that the Yeltsin factor was having a positive impact on sentiment towards the merging markets." In addition, he pointed out that Peru, yesterday's strongest performer, bas been helped by the buying activity during the country's roadshow this week to promote its Brady bond deal. The prices of Peruvian debt rose by 2.2 per cent

yesterday. The roadshow will visit London today and New York tomorrow. Dealing in existing Peruvian loans will cease on July 1 and banks have until the end of July to decide how to allocate their debt under the options offered by the Brady deal. The bonds are likely to be issued in the fourth quarter and will trade on "a when and if issued" basis until then.

More generally, Mr West said the Brady market had been belped by the relative calm in the US Treasury market.

"It would seem that every time US Treasuries exhibit some stability, the demand for high yielding assets is strong enough to reassert itself. As before, improving fundamentals are attracting investment flows to the emerging markets." he said.

7.50 8.28 8.34

7.51 8.28 8.33

China makes a successful comeback with \$700m offer

By Conner Middelmann

The People's Republic of China made a successful comeback to the international bond market with a \$700m offering of fiveyear bonds, although it disappointed market participants who had boped for an even

The transaction rehabilitates China's standing in the global bond sector after its less than successful \$1bn 10-year global debut in February 1994. That issue's 85 basis point launch spread over Treasuries nearly doubled before narrowing back to current levels of around 95 basis points.

Positive economic fundamentals - including falling inflation, strong growth, and a low debt-to-GDP ratio - and investors' perception of easing political risks have lifted the performance of outstanding bonds

latest offering.

The bulk of the issue was being placed among European and Asian institutions, including central banks, pension funds and insurance companies, bankers said.

INTERNATIONAL BONDS

"Investors have been all over us for the past two days trying to get some paper," one dealer

The bonds are to be priced today at a yield spread of between 80 and 83 hasis points over Treasuries - probably at the tighter end of that range which was widely deemed as fair. Talk of a simultaneous 10-year tranche did not come to fruition, in part because most international investors have

and fuelled demand for China's been shunning 10-year dollar paper in recent months. CS First Boston and Morgan Stanley are joint bookrunners.

The rest of the eurobond market was relatively subdoed, with last night's Euro 96 football semi-final between England and Germany foremost on many dealers' minds. "I am surrounded by England flags and people with painted faces," said one Lon-

don syndicate official. "Everyone's leaving the office early to catch the game." Football fever notwithstanding, a \$200m 21/2-year offering for the US subsidiary of German carmaker BMW got away smoothly and held up better

dated corporate issues with December maturities. At the close, the re-offer spread was puchanged at 22 basis points over Treasuries.

than many of the recent short-

Bonower US DOLLARS	Amount m.	Coupon %	Price	Metority	Fees %	Spread	Book-numer
Peoples Republic of China	700	(2)4	(A)FR	Jul 2001	0.35R	(a)(Wh Syr)	CSFB/Morgan Stanley
Captive Finance, Al-Highit	255	(21)	(D1)	Dec 2001	0.20		Citibank International
BMW US Capital Corple)	200	6.75	98,9327	Dec 1998	0.225R		Dresdner/Goldman Sechs
Mobil Australia Finance Bullate Industrial	200 100	6.375 11.3754	99,616R	Jul 1998 Jul 1999	0.15R 0.875P		SBC Warburg JP Morgan Securities
D-MARKS Credit Nationals	500	(c)	99.925R	Jul 2001	0.158		Dreadner Bank-KB
Stadtsparkesse Koein	300	6.75	101.977	Jul 2006	2.50		Westdeutsche Landesbank
AUSTRALIAN DOLLARS							
Doutsche Bank Austrafe(i)	150	8,50	101.372	Aug 2000	1.75	-	Doutsche Morgan Grantel
World Benk	100	8.25	101.36	77 5000	1.75		Taronte Dominion Bank
PESETAS European investment Bank	1000	7.46	100.92	Ju 1999	1.25		Banco Silbao Vizcaya

Joint leads Goldman Sachs and Dresdner Bank said the bonds were sold mainly to continental European retail investors, but also to institutions betting on a strong spread performance thanks to the retail

8.44 1136 9.18 122 - 1034 - 1105 9.15 1474 - 1304 - 1304 - 33 8.83 1194 7.70 7542 4.60 1394 4.56 1224 - 1304

910 8.43 8.65 11.72 10.23 10.33 9.59 9.54

demand. Another corporate issuer of retail-targeted sbort dollar paper was Mobil Australia, the subsidiary of the US oil company. It launched a \$200m

issue of two-year notes priced to yield 2 basis points over Treasuries, which was considered too tight by most dealers. Indeed, the spread widened to 7 basis points over on the bid

To geograte arbitrage transactious you have to bring them at a tight spread," said a syndicate official at lead SBC Warburg. "The spread has widened out but it will come back

again, as it has done with many similar deals," he added. Primary activity is likely to be subdued today due to a London Underground strike which will prevent many dealers from getting to their desks on time. Nevertheless, National Power, the UK power utility, is

set to issue \$300m of five-year

bonds priced in the high 30s to

40 basis points over Treasuries

via J.P. Morgan and UBS. FT-ACTUARIES FIXED INTEREST INDICES Day's Jun 26 Jun 25 Yr. 3go Jun 26 Jun 25 Yr. ago Jun 26 Jun 25 Yr. 8go 122.26 145.65 160.27 4.26 5 yrs 5.64 15 yrs 5.43 20 yrs 7.38 8.20 8.28 Up to 5 years (22) 2 5-15 years (15) 2 Cver 15 years (3) 0.14

	COVERN	MENT B	ONDE			pi Punki	FUTURES	OPTIONS	LIFFE ON	250.000 m	nts of 100	*	
		Red	Day's	Week	k Month	Strike	TOTURES		MT8	230,000 pc	145 01 100	- PUTS -	
		Date Price	change	Yield ago		Price	Aug	Sep	Oct	Dec A	wg S		: Dec
stralle		2/06 106.9696		8.93 8.95		9600	0.69	0.95			34 0.6		
stria		5/06 97,070		6.56 6.58	8.43	9550 9600	0.40 0.20	0.66 0.44			55 0.8 86 1.0		
fglum Ineda *		5/06 101.3900 2/08 94.540		6.80 6.87 7.77 7.93			0.20 0.00 107						
arament.	6.000 0	3/06 103,740	+0.240	7.44 .7.58	. 7.34					, - open a)	-, 124		
STAN		3/01 100.360	.+0.110	5.55 5.74		Italy							
CAT streamy Bursd		4/06 104,750 4/06 97,780		6.57 8.63 6.56 6.65		M NOTE	ONAL ITALI			TP) FLTUR	ES		
and	8.000 0	8/06 102,050	+0.220	7.69 7.83			" Lina 200n						
ly		2/06 101,6000		9.24† 9.37	9.44		Open	Sett prio	6 Change	High	Low	Est vo	Open i
pan No 140 No 182		6/01 118,973; 9/05 98,1228		2.34 2.32 3.27 3.24		Sep	116.75	116.71	+0.02	115.75	118.27	34374	57901
therlands		1/06 96.6200		S.48 6.57		Dec	118,00	115.96	-0.03	115.00	115,80	240	292
rtugal		2/05 118.0000		8.79 8.94		I ITALL	AN GOVT. E	SOND (BTP	FUTURE:	OPTIONS	(LIFFE) Lie	#2P0m 100	ens of 100
gin øden		4/06 99.3700 2/05 86.7914		8.88 9.11 3.19 8.40		Strike			uls			- PUTS -	
Gits		2/00 102-26		7.24 7.37	7.35	Price		Sep	De	XC .	Sep		Dec
		3/08 96-19		7.98 8.10		17650		1.43	1.8		1.22		2.40
Treasury *		0/08 106-26 5/06 98-25		8.10 8,22 6.89 6.96		11700		1.16 0.94	1.6		1.45		257
· · · casury		2/26 87-07		7.03 7.11	6.85		AL CHE 100			-		Puts 57000	
U (French Govt)	7.500 0	4/05 103,4700	+0.110	6.95 7.08	6.89							4146	
idon closing. New Yor Pross (including metho		E	6 for many	Yields: Local me	ries' standard.	Spain							
es: US, UK in 32nds, o			- 14 IONGO		S International	M NOTE	NAL SPAN	ISH BOND	FUTURES	(MEFF)			
							Open	Sett prior	Change	High	Low	Est. vol.	Open at
INTEREST	RATES					Sep	100.15	100.37	+0.24	190,44	99.88	67,541	62,066
est		Treasu	ny Bills and B	land Yleida									
	Que en	ordit	- Two	YEST	6.30	UK							
ter four rate	84 1wom		- There	year	6.69	E NOTIC	MAL UK GI	LT FUTUR	ES (LIFFE)	£50.000 32	nds of 100	P6	
tonia at intervention.	5 Sk Sk Sk	- TOP	545 184	No.	6.90 7.05		Open	Sett price	Change	Hìgh	Low	Est. vol	Open in
area a restaux.	- Cha M		5.82 30-1	-	705	Jun	106-30	106-27	-0-01	106-30	106-29	433	6850
						Sep	105-28	105-31	+0-06	106-01	105-20	21773	112376
							GILT FUTU			520,000 64	vine of 100		
						Strike	Aug	Sep CA	Oct	Dec Au	4 Sec	PUTS -	Cec
OND FUTUR	ES AMP	OPTIONS				1 105	1-19			-53 0-2	-		1-55
FUIUM		J-11085				108	0.42	1-02	0-57 1	-24 0-4		1-59	2-26
						107	Q-17			-01 1-1			3-03
rance						ESE. VOL 10	tal, Cash 2011	Puls 1320.	Hewlous day	re open to.,	COM 15995	Purs 15995	
NOTIONAL FRENC	CH BOND FU	TURES MATIE	FF(500 000			Ecu							
				E-4	0		OND FUTU	RES MATE	PI ECITION	000			
Open p 121.36		Change Hig		Est. vol.	Open int.	- 200							
p 121.36 c 120.08	121.36	+0.08 121. +0.06 120.			153,214 19,903	e	Open	Sett price	-	High	COW	Est vol	Open tri
r 119.90	119.86	+0.06 119.			741	Sep	90.64	90.72	+0.12	90.72	90.68	2,802	6,157
LONG YERM FRE	NCH BOND	PTIONS (MATI	F)										
the	CALL			- PUTS		US							
	Aug	Sep	Just.	Aug	Sap	US TR				****			
							EASURY BO	וטדטין מאכ	463 (CB1)	21007000 35	inds of 100	7%	
	9 0.76	1.06	0.04	0.19 0.43	0.4S 0.75		Cpen	Latest	Change	High	Low	Est. vol.	Open int
0.36 0.00 0.00	0.26	0.59	0.04	0.19	0.75	Sep	Open 107~20	Latest 107-21	Change +0-02	High 107-24	LOW 107-07	Est. vol. 265,960	421,865
0 . 1 0.36 2 0.01		0.59	0.04			Sep Dec	Open	Latest 107-21 107-04	Change	High 107-24 107-08	Low 107-07 106-24	Est. vol. 265.960 443	15.966
3 . 1 0.36 2 0.01 3 .	0.26 0.07	0.59 0.25 0.09	:	0.43	0.75	Sep	Open 107~20	Latest 107-21	Change +0-02	High 107-24	LOW 107-07	Est. vol. 265,960	421,865
3 . 1 0.36 2 0.01 3 .	0.26 0.07	0.59	:	0.43	0.75	Sep Dec	Open 107~20	Latest 107-21 107-04	Change +0-02	High 107-24 107-08	Low 107-07 106-24	Est. vol. 265.960 443	421,865 15,968
3	0.26 0.07	0.59 0.25 0.09	:	0.43	0.75	Sep Dec Mar	Open 107–20 107–08	Latest 107-21 107-04 106-22	Change +0-02 +0-02	High 107-24 107-08 108-23	Low 107-07 106-24 106-18	Est. vol. 295,960 443 456	421,865 15,968
0.36 2 0.07 3 . . rot boot, Calb 8.456	0.26 0.07 Puts 9,403 .	0.59 0.25 0.09 Previous day's of	en int. Calls	0,43 - - 134,861 Puts 14	0.75	Sep Dec Mar Japan	Open 107~20	Latest 107-21 107-04 106-22	Change +0-02 +0-02	High 107-24 107-08 108-23	Low 107-07 106-24 106-18	Est. vol. 295,960 443 456	421,865 15,968
1 0.38 2 0.01 3 : 4 : 4 : 4 : 6 rot buil Colb 8455	0.26 0.07 Pues 9,403 .	0.59 0.25 0.09 Previous day's of	DM250,000	0.43 134,861 Puts 14 100ths of 100	0.75	Sep Dec Mar Japan	Open 107-20 107-08	Latest 107-21 107-04 106-22	Change +0-02 +0-02 PANESE G	High 107-24 107-08 106-23	LOW 107-07 106-24 106-18	Est. vol. 296,960 443 459	421,865 15,968 2,436
1 0.38 2 0.09 3 4 4 4 4 6 rot total, Cale 8.458 erritaarry NOTIONAL CERM.	0.26 0.07 Pues 9,403 .	0.69 0.25 0.09 Previous day's of TURIES (LIFFE) Change Hig	DM250,900	0.43 134,861 Puts 1/ 100ths of 100 Est. vol	0.75 12,132. Open int.	Sep Dec Mar Japan	Open 107-20 107-06 NAL LONG Y100m 100	Latest 107-21 107-04 106-22 TERM JAI Mrs of 100	Change +0-02 +0-02	High 107-24 107-08 106-23	Low 107-07 106-24 106-18	Est. vol. 295.980 443 456 88	421,885 15,988 2,495 Open int.
1 0.36 2 0.07 3	0.26 0.07 Pues 9,403 .	0.59 0.25 0.09 Previous day's of	DM250,000 h Low 0 95,14	0.43 134,861 Puts 14 100ths of 100	0.75	Sep Dec Mar Japan Notico (UFFE)	Open 107-20 107-06 NAL LONG Y100m 100 Open 118.57 117.57	Latest 107-21 107-04 106-22 TERM JAI 18ts of 100 Close	Change +0-02 +0-02 PANESE G	High 107-24 107-08 108-23 OVT. BONE High 118,61 117.57	Low 107-07 106-24 106-18 PUTURE Low 118.55 117.57	Est. vol. 296,980 443 456 88 Est. vol 1052 290	421,865 15,968 2,436
O.3. O.3. O.3. O.3. O.5. O.5. O.5. O.5.	0.26 0.07 Pues 9,403 . AM BUNED FU Sett price 0 95.35	0.69 0.25 0.09 Previous day's of TURAES (LIFFEY Change Hig +0.05 95.4	DM250,000 h Low 0 95,14	0.45 : : : : : : : : : : : : : : : : : : :	0.75 12.132. Open int. 197559	Sep Dec Mar Japan Notico (UFFE)	Open 107-20 107-08 107-08 NAL LONG Y100m 100 Open 118.57	Latest 107-21 107-04 106-22 TERM JAI 18ts of 100 Close	Change +0-02 +0-02 PANESE G	High 107-24 107-08 108-23 OVT. BONE High 118,61 117.57	Low 107-07 106-24 106-18 PUTURE Low 118.55 117.57	Est. vol. 296,980 443 456 88 Est. vol 1052 290	421,865 15,968 2,495 Open int.
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O.3. O.3. O.3. O.3. O.3. O.3. O.3. O.3.	0.26 0.07 Puts 9,403 . AN BURED FU Satt price 95.35 94,45	0.69 0.25 0.09 Previous day's of TURAES (LIFFEY Change Hig +0.05 95.4	DM250,000 h Low 0 95,14	0.45 : : : : : : : : : : : : : : : : : : :	0.75 12.132. Open int. 197559	Sep Dec Mar Japan Notico (UFFE)	Open 107-20 107-06 NAL LONG Y100m 100 Open 118.57 117.57	Latest 107-21 107-04 106-22 TERM JAI 18ts of 100 Close	Change +0-02 +0-02 PANESE G	High 107-24 107-08 108-23 OVT. BONE High 118,61 117.57	Low 107-07 106-24 106-18 PUTURE Low 118.55 117.57	Est. vol. 296,980 443 456 88 Est. vol 1052 290	421,865 15,968 2,495 Open int.
O.3. O.3. O.3. O.3. O.3. O.3. O.3. O.3.	0.26 0.07 Puts 9,403 . AN BURED FU Satt price 95.35 94,45	0.69 0.25 0.09 Previous day's of TURAES (LIFFEY Change Hig +0.05 95.4	DM250,000 h Low 0 95,14	0.45 : : : : : : : : : : : : : : : : : : :	0.75 12.132. Open int. 197559	Sep Dec Mar Japan Notico (UFFE)	Open 107-20 107-06 NAL LONG Y100m 100 Open 118.57 117.57	Latest 107-21 107-04 106-22 TERM JAI 18ts of 100 Close	Change +0-02 +0-02 PANESE G	High 107-24 107-08 108-23 OVT. BONE High 118,61 117.57	Low 107-07 106-24 106-18 PUTURE Low 118.55 117.57	Est. vol. 296,980 443 456 88 Est. vol 1052 290	421,865 15,968 2,495 Open int.
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O.34 O.01 out total, Calls 8.450 orthogal, Calls 8.450 orthogal, Calls 8.450 Open o 95.36 94.14 IX GILTS Di Notes up to Flow Ye = 201 1996	O.26 O.07 Pues 9,403 Pues 9,403 AN BUND FU Sett price 95.35 94.45 **Rice !** **Trick **In Rice !** **Trick	0.89 0.25 0.09 Previous day's of TURES 0.8FFEY Change Hig +0.05 95.4 +0.07 94.5	DM250,000 h Low 0 95,14 4 94,29 .1996 h Low [Ra 215;5 Inst	0.43 134.861 Puts 14 100ths of 100 Est. voi 94522 195	0.75 Open int. 197559 1908	Sep Dec Mar Japan Notro (UFFE) Sep Dec LIFFE han Red Page E 7 96 9853	Cpen 107-20 107-06 107-06 NAL LONG Y100m 100 Open 118.57 117.57 117.57 res den trade	Latest 107-21 107-04 106-22 TERM JAI pres of 100 Close Of on AFT. A Univ	Change +0-02 +0-02 +0-02 Change & Chang	High 107-24 107-08 106-23 COVT. BONG High 118.61 117.57 wat figs. dru (LOW 107-07 108-24 106-18 20 FUTURE LOW 118.55 117.57 for previous 1 G PHz 1 G	Est. vol. 296.960 445 456 456 1052 290 day.	421,865 15,988 2,495 Open int. 1/2 n/a
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O.33 O.03 O.01 O.01 O.01 O.01 O.01 O.01 O.01 O.01	0.26 0.07 Puts 9,409 . AN SURED FU Sett price 9 95.35 94.45 **ICES** **I	0.59 0.25 0.09 Previous day's or TURIES 0.5FFEY +0.05 95,4 +0.07 94,3 Price 5 - at ~ Hi 1015, 100 104,3 100 105, 100	DM250.000 DM250.000 Low 0 95.14 94.29 .1996 in Low 1013 True 21515 True 23 1034 True	0.43 134.861 Puts 14 100ths of 100 Est. vol 94522 195 27 7/spc 2006tt 25 7/spc 2006tt 25 7/spc 2006tt 25 7/spc 2006tt 25 7/spc 2006tt 25 7/spc 2006tt	0.75 	Sep Dec Mar Notro (LIFFE) Sep Dec LIFFE has Red Page E 8831 8.00 9823 7.78 120%	Cpen 107-20 107-06 107-06 NAL LONG Y100m 100 Open 118.57 117.57 res otto trade +5 1018 +5 1018 +5 1018 +5 1018 +5 1018 +5 1018	Latest 107-21 107-94 106-22 TEPAN JAN 1875 of 1007 Close 1007 Clos	Change +0-02 +0-02 +0-02 Change Grange Grang	High 107-24 107-08 106-23 106-23 COVT. BONG High 118,61 117.57 war figs. dru (1) 107-23 1.1 178-3 178-3	Low 107-07 126-24 106-18 106-18 17.57 for previous 1 3.37 1 1 3.37 1 3.75 1 7 3.75 1 7 3.75 1 7 3.75 1	Est. vol. 295,960 443 456 445 456 1052 280 day.	421,865 15,968 2,495 Open int. //a n/a 1999 High Lo 11881 111 1806 175 1784 177
O.3. O.0. O.0. O.0. O.0. O.0. O.0. O.0.	0.26 0.07 Pues 9,409 . AN BUND FU Sett price 95.35 94,45 RICES 18 Red 1 18 Red 1 18 15.99 12.70 5.63 10.19 3.70 10.9 5.68	0.59 0.25 0.09 Previous day's of TURES 0.5FFEY Change Hig +0.05 95.4 +0.07 94.5 Price £ = at ~ Hig 1915 101 194	DM250,000 h Low 0 95,14 4 94,29 h Low 1995 h Low 1995 1964 1793 3 1964 1793	0.43 134.861 Puts 14 100ths of 100 Est. vol 94522 195 27 Face 2000+11: 28 7 Face 2000+11: 28 11 Face 2000-41: 28 11 Face 2000-41:	0.75 	Sep Dec Mar Sep Sep Dec (LFFE) Sep Dec LFFE has 1004 7.96 985 1004 7.78 1004 804 1003 804 1003	Open 107-20 107-06 107-06 107-06 Y100m 100 Open 118.57 117.57 rest obso trade +12 1016 +13 1016 +14 1016 +14 1016 +15 1056 +15 1056 +16 1056	Latest 107-21 107-04 106-22 107-04 106-22 107-04 100-22 100-22 100-24 10	Change +0-02 +0-02 +0-02 PANESE G K Change	High 107-24 107-03 106-23 106-23 106-23 118-61 117-57 war fign. Am (178-5) 1.17-17 178-5 1.17-17	Low 107-07 108-24 108-18 20 FUTURES 118-55 117-57 to previous 1 3,87 1 1 3,87 1 7 3,75 1 7 3,	Est. vol. 266.960 443 456 445 456 1052 290 day.	421,865 15,968 2,495 Open int. n/a 1998 in 1188 in 1188 in 1188 in 1188 in
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O.33 O.00 O.01 O.01 O.01 O.01 O.01 O.01 O.01	0.26 0.07 Pues 9,409 . Pues 9,409 . Sett price 95.35 94.45 RIGES View N. Red 10.19 3.70 10.19 3.70 10.19 3.70 10.17 5.99 10.47 5.99 10.47 5.99 10.47 5.99 10.47 5.99 10.48 5.99	0.59 0.25 0.29 0.29 Previous day's of TURES 0.5FFEY Change High +0.05 95.4 +0.07 94.5 1015 10015 1015 10015 1015 10015 1015 1016 1015 10015 1016 10015 1	DM250,000 h Low 0 95,14 4 94,29 h Low 1995 1075 1075 1075 1075 1075 1075 1075 107	0.43 134.861 Puts 14 100ths of 100 Est. vol 94522 195 27-pc 2006tt 27/pc 2006tt 21 lpc 2003-7 8 8 12/pc 2007 tot 18 13/2pc 2008 th 18 9pc 2008 th	0.75 	Sep Dec Mar Norro (UFFE) Sep Dec LIFFE has Price E 7 96 9851 7 78 1004 7 78 1204 804 1033 1053 1053 1053	Cpen 107-20 107-06 107-06 107-06 107-06 110-06 118-57 117-	Latest 107-21 107-04 106-22 106-22 TERM JAA 106-22 TERM JAA 106-22 Law 100 Close 100 C	Change +0-02 +0-02 +0-02 *Change Change Cha	High 107-24 107-25 107-28 106-23 106-23 118-51 117-57 was figs. on (1) 178-3 117-58 11	Low 107-07 108-24 108-13 108-13 17.57 17.5	Est. vol 206.980 445 456	421,865 15,966 2,495 2,495 Open im. n/a 1196 1175 1175 1175 1175 1175 1175 1175 117
0.33 0.03 0.01 0.01 0.01 0.01 0.01 0.01	0.26 0.07 Pues 9,409 . Pues 9,409 . Sett price 953.35 94.45 **Note 1. **N	0.59 0.25 0.09 Previous day's of TURES 0.5FPEY Phone High +0.05 94.3 Phone 1 at March 1001 101 101 101 101 101 101 101 101 1	DM250.000 DM250.000 Low 0 95.14 94.29 1995 1005 1005 1005 1005 1005 1005 1	0.43 134.861 Puts 14 100ths of 100 Est. vol 94522 195 25 71-pc 2006‡‡ 25 75-pc 2006‡‡ 25 75-pc 2007 ‡‡ 25 111-pc 2007 ‡‡ 25 112-pc 2007 ‡‡	0.75 	Sep Dec Mar NoTro (LIFFE) Sep Dec LIFFE has Red Page I 120% 80% 122% 80% 122% 812 98% 812 98%	Cpen 107-20 107-06 107-06 107-06 107-06 107-06 109-07 118-57 117-57 117-57 117-57 118-5 1-5 108-1 1-5 108-	Latest 107-21 107-94 106-22 109-95 Close 1000 1000 1000 1000 1000 1000 1000 10	Change +0-02 +0-02 +0-02 **Change Change	High 107-24 107-08 106-23 106-23 106-23 118-61 117-57 118-61 117-57 118-61 117-57 118-61 117-57 118-61 117-57 118-61 118-	LOW 107-07 108-24 108-13 108-13 117-57 to previous 1 3,57 1 1 3,57 1 1 7 3,76 1 7 3,	Est. vol. 296.980 443 456 445 456	421,865 15,966 2,495 2,495 Open int. 1198 1198 1198 1198 1198 1198 1198 119
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0.36	0.26 0.07 0.07 0.07 0.07 0.07 0.07 0.07 0.0	0.59 0.25 0.25 0.25 0.25 0.25 0.25 0.25 0.25	DN4250,000 h Low 0 95,14 4 94,29 .1995 h Low 1005 Tree 1015 Tree 1015 Tree 1015 Tree 1015 Tree 1115 Tree	0.43 134.861 Puts 14 100ths of 100 Est. vol 94522 195 27 Type 2006tt as 74 pe 2001-14 as 74 pe 2002-6tt as 11 type 2003-7 as 81 zpc 2002-6tt as 13 zpc 2004 tt as 13 zpc 2004 tt as 92 2009 tt as 92 2004 tt as 92 2002 tt as 93 zpc 2004 tt as 93 zpc 2008 tt as 93 zpc	0.75 2.132. Open int. 197559 1808 1808 7.76 7.90 8.41 8.41 8.69 7.48	Sep Dec Mar Norro (UFFE) Sep Dec LIFFE has 1984 1934 1934 1934 1934 1934 1934 1934 193	Cpen 107-20 107-06 107-06 107-06 107-06 107-06 107-06 107-06 107-06 107-06 108-107 118-57 117-57 117-57 118-60 118-57 117-57 118-61 118	Latest 107-21 107-94 106-22 TERM JAIN JAIN JAIN JAIN JAIN JAIN JAIN JAIN	Change +0-02	High 107-24 107-24 107-24 107-24 106-23 106-23 118-61 117.57 118-61 117.57 118-61 117.57 118-61 117.59 13.4 (10.5) 13.4 (10.5) 13.4 (10.5) 13.5 (10.5) 13.6 (10.5)	LOW 107-07 108-24 106-18 20 106-18 20 118-55 117-57 107 previous 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	Est. vol. 266.960 443 456 445 456 1052 230 456 1052 230 456 115 456 117 4 45	421,865 15,966 2,495 2,495 2,495 2,495 1138 1138 1151 1152 1153 1153
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CURRENCIES AND MONEY

Oil concerns push dollar towards key Y110 level

Storling

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US, even if the yen weakened

further. He said the view that the Japanese were anxious to

avoid aggravating the trade

dispute gave confidence that the dollar would be able to

"ratchet" up slowly against the

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DOLLAR SPOT

The dollar yesterday made a tentative further push towards Y110, helped by the fallout from the Gulf oil blast which was seen as being potentially damaging to leading oil import-ers like Japan.

With the G-7 eummit close et hand, as well as important policy meetings in the form of the Bundesbank council gathering today, as well as the Bank of Japan branch managers and FOMC meetings next week, there was little appetite to make a decisive push at an

As a result, the dollar retreated from the fresh high of Y109.70 to close in London at Y109.52. Against the D-Mark, though, it closed lower at DM1.5287, from DM1.5822 as the D-Mark made progress

against the weaker yen. On a day when Londoners found it difficult to think of much else beside the football match against old rivals Ger-

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many, the pound finished slightly weaker against the D-Mark at DM2.3579, from DM2-3609. Against the dollar it closed at \$1.5425, from \$1.5409. Elsewhere in Europe the lira retreated from the L1,000 level to finish at L1,004 against the

D-Mark from L1,002. Mr Antonio Fazio, the central bank governor, sounded a cautious note about the prospect of a cut in interest rates. ■ Ahead of the big match last night there was little London traders could do save hope that their team did a better job of standing up to the Germans than the pound has managed

past thirty years. Traders said the summer spirit was alive and well in the

against the D-Mark over the

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dealing room if not in the price action. Mr Kit Jnckes, currency strategist at NatWest Markets in London, said: "Football is on everybody's mind, but there is not much you can do in the way of price

action except buy tickets." Mr John Wareham, head of foreign exchange marketing at Merrill Lynch in London, said that there was "serious evidence that the currency of a country hosting a large international sporting event appre-clates in the run-up up to the competition." There is less evidence of any correlation in the joyous or tearful aftermath.

Done of the key factors behind the dollar's stronger performance against the yen lay in the weak Japanese car export figures, which fell by 12 per cent in the 12 months to

Mr Juckes said the figures suggested that Japanese car manufacturers would be exporting fewer vehicles to the

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likely to continue up until the G-7 meeting. With so little else to focus on, he said the market Against the D-Mark (DM per 1) was devoting intense scrutiny to the G-7 meeting. Some recent atterances from various Bundeshank officials, however, have introduced the possibility

> words of support for the dollar.
>
> "The Bundesbank has started to give slightly veiled hints that the D-Mark has finished weakening," he said.
> "The depreciation of the D-Mark might just have run its course." One possible reason why the D-Mark has been more stable recently may lie with the central banks. There have been numerous rumours of European central banks buying

that the summit may stop

short of providing its normal

were depleted during the 1992/ Aside from the stronger tone exchange rate turbulence. against the yen, the dollar One New York based hedge remained largely range-bound. fund analyst said: "I think the central banks are managing Mr Warsham said this was

10.7520 10.7450 \$1.6760 \$1.5970 \$.8966 5.6762 4.6473 4.6207 \$1845 \$1820 1.5320 1.5263

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doing a better job of managing of slowing down the volatility. They are tempering the moves on both sides and I think that is relatively new." Mr Wareham said the fact that the US, Germany and

Jepan were all believed to be happy with current exchange rates provided a reason for thinking that the G-7 might stay away from currencies altogether. According to this reasoning, saying nothing would offer fewer hostages to fortune than words which could be

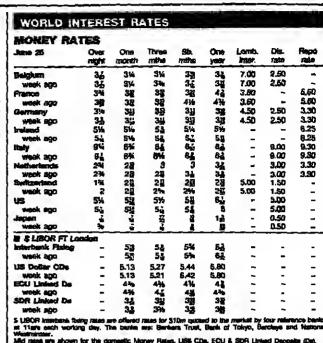
misinterpreted.

A British official was quoted by Reuters saying that the Lyon summit would have "nothing exciting" to say about currencies.

sibly in order to bolster their	E CTTO	DR CURRENCE	3.
reserves which in many cases were depleted during the 1992/3 exchange rate turbulence. One New York based hedge fund analyst said: "I think the central banks are managing	Hangery Yes Marcalt	4629.00 - 4525.00 0.4623 - 0.4629	\$ 27,6380 - 27,6530 159,530 - 159,530 3000,00 - 3000,00 0,2998 - 0,3000 2,7146 - 2,7170 5095,00 - 5097,00 3,8774 - 3,8728

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05	-2.1	130,745	-1.7	80.1	Mer	98.08	96.08	+0.0	1 96.10	96.02	22090	1896
96	-1.7	6.6819	~1.1	90.2	Jem	95,71	95.70			95.65	10730	1121
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17	0.2	1,5479	~0.4	85.6	- Innet					- indian po		
12	-0.0	1.2505	-DB			Open	Sett or	ce Chen	oe High	LOW	Est. Vol	Open

	Open	Sett price	Change	High	LOW	Est, vol	Open k
Sep	95.93	95.94	+0.03	95.98	95.91	25,700	97,68
Dec	95.74	95.77	+0.03	95.79	95.74	15.281	41,06
Mer	95.49	95.52	+0.03	85,55	95.48	5.314	24,09
n Terre	E MONTH	EURONANI	FUTURE	S (LIFFET	DM1m pob	nts of 100%	
	Dpen	Sett price	Change	High	Low	Est. vol	Open k
Sep	96.61	96.82	+0.02	98,62	99.60	27903	20079
Dec	96,40	95.40	+0.01	98.41	96,36	29748	20218
Mer	80,86	96.06	+0.01	96.10	96.02	22090	18986
Jen	95.71	95.7D	+0.01	95.71	95.65	10730	11217
THRE	HTHOM X	TUROLINA	FUTURES	(LIFFE) L	000m pok	ts of 100%	
	Open	Sett price	Change	High	LOW	Est. vol	Open is
Sep	92.04	91,94	-0.11	92.06	91_84	23987	61986
Dec	92.35	92.31	-0.06	92.36	92.24	9278	35712
Mar	92.42	92,40	-0.02	92.43	92.33	3717	19616
Jun	92.30	92.30	+0.01	92,33	92.25	1249	10413
I THRE	HITHOM B	EURO EWIS	S FRANC	PUTURE	(LIFFE) SI	rim pokus	of 100%
	Open	Sett price	Change	High	Low	Est. vol	Open k
Sep	97.33	97.38	+0.05	97.40	97.31	6261	39191
Dec	97.18	97.21	+0.05	97.22	97.15	2391	19115
Mac	96.98	98.99	+0.05	96.90	98.95	401	8259
Jun	98.67	98.70	+0.03	96.72	98.67	4	637
e there	HTHOM B	EUROYMAL P	UTURES!	LIFFE) Y10	Om points	of 100%	
	Open	Sett price	Change	High	LOW	Est. vol	Open k
Sep	89.10	99.10	+0.02	99,10	98.10	49	n/a
Dec	96.74	88.75	+0.03	98.75	98.74	720	N/a
Mar		98.43	*D.D2			0	n/s

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1.8502 +0.0022 489 - 514 1.8520 1.9419
11.8370 +0.0127 323 - 416 11.9427 11.9150
53.8334 +0.0559 074 - 563 54,7620 53.4740
4.9559 -0.0246 497 - 621 5.0234 4.9318
188.935 +0.846 618 - 0.51 189.050 167.870
3.8506 -0.0001 485 - 526 3.8527 3.8434
2.2618 -0.0083 803 - 636 2.2670 2.2567
40.3904 +0.019 233 - 575 40.4657 40.3147
5.7853 +0.0081 831 - 875 5.7880 3.7748
2.1770 +0.0035 755 - 784 2.1785 2.1732
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1247.42 -2.02 686 - 788 1250.10 1245.15 7.738/ 34.9000 3.2128 108.520 2.4963 1,4663 28.1850 3.7508 1,4113 4.3355 2.1785 2.1732 8.7096 8.6706 1260.10 1245.15 -2.02 686 - 798 +0.0003 163 - 516 1247.42 42.6340 CROSS RATES AND DERIVATIVES **EXCHANGE CROSS RATES** 21.03 4,005 2,061 2,139 1,101 4.325 2.309 9.179 1.697 4.661 2.565 2.006 4861 2508 5,448 2,908

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LONDON MO	NEY RA	TES				
Jun 26	Over- right	7 days notice	Conti	Three tronsits	Shi. roomtha	year One
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Oliver Godden

a division of Midland Bank ple

LONDON SHARE SERVICE ALCOHOLIC BEVERAGES CHEMICALS **HOUSEHOLD GOODS** AGA SIO Alexandra AGA SIO Alexandra SIO Alex AGE SERVER SERVE をいたが、中の日本の代表の「日本の「日本の」、「日本の「日本の」、日本の「日本の」、日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の「日本の」、「日本の」、「日本の「日本の」、「日本の」、「日本の「日本の」、「日本の」 사 나 참 나 h 当のできないのでは、日本のではのでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本のでは、日本の ALLENGER STATE OF THE PROPERTY 1. 1995年 | 1. 1995年 | 1. 1995年 | 1. 1995年 | 19 1.1 127.0 30.2 7.8 49.4 7.9 0.3 123.5 11.3 - 115.1 17.0 123 B1 12 0 123 **电子记录器中国内电影器等** BANKS, MERCHANT 。 のははの、 1917年にいるは、1918年のは、1918年のは、1918年の 1265 1265 1265 176.1 176.1 141.3 141 50318 358 358 1415 1189 1189 1189 1189 1189 1189 172 Jeen Jame Vor R

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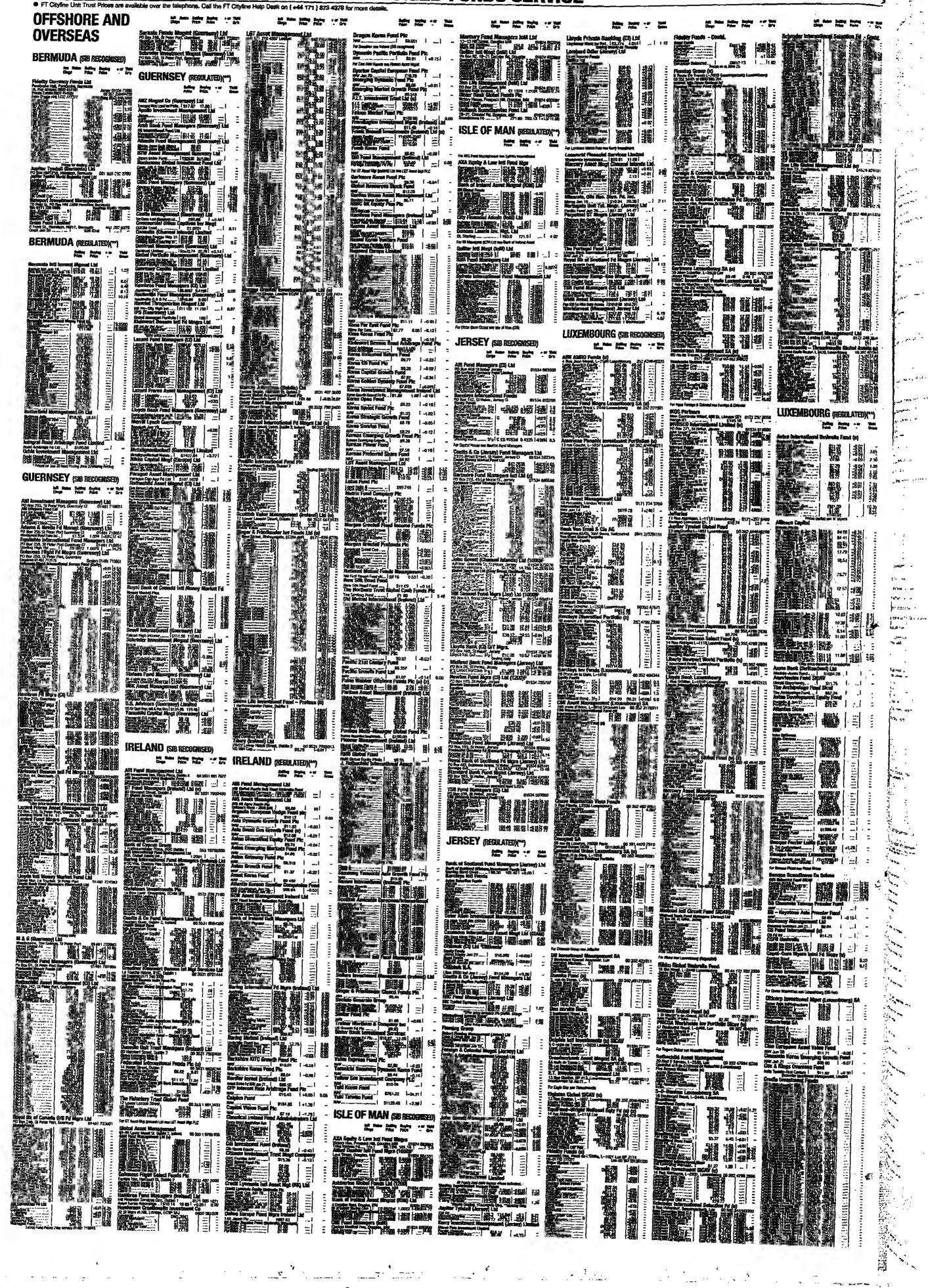
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GUIDE TO LONDON SHARE SERVICE

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FT MANAGED FUNDS SERVICE



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The recent bid talk among

several stocks in the television

sector was nowhere in sight

yesterday. HTV was left drift-

year results. The shares lost a

to 265p in trade of 2m after

SBC Warburg cut profits esti-

mates for the company. The

broker is said to have reduced

its current year forecast by

ket lately on worries that its

planned marketing link with

American Airlines could be

foiled by the competition

authorities, bounced 6 to 553p.

Brokers cited next Wednes

British Airways, a dull mar-

English China Clays fell 11

ere 5 to 2375p.

£23m to £67m.

LONDON STOCK EXCHANGE

Footsie bounce masks weakness at lower levels

London appeared to shrug off the "Sell in May" curse that had dragged the FT-SE 100 index down 80 points over six straight trading

But a rebound in the Footsie yesterday masked a slide in the secondline index. And the future, which has led much of the recent selling. was still trading at a discount to the underlying cash market.

Consequently, some technical analysts who have a bullish view on the market were beginning to look nervously at their computer models. And many dealers remained scentical that there was much to go for

in the near term. Most had already cut their prices and were merely hoping that the Footsie futures contract was not going to fall much further

Their wishes were only partly granted. The future did bounce but still continued to be priced at a discount to cash.

However, there was a lift from a few individual items of corporate news. Tomkins, the conglomerate. announced that it had received approval in the US for its proposed acquisition of Gates Rubber.

And there was also relief that the extremely heavy trade in National Grid late on Tuesday night may have represented nothing more daunting than a tax-related deal. The other side of this so-called "bed and breakfast" trade appeared on the trading screens first thing sterday and was responsible for 12 per cent of yesterday's turnover of 745.3m shares. That figure was well down from Tuesday's level

was worth £1.85bn. Lower down the league of quoted companies the news was less encouraging. A profits Warning from Danka Business Systems came hard on the heels of Tuesday's suspension of trading in Wickes, the DIY chain.

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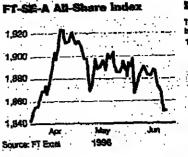
Danka's announcement continued the perceived shift from earnings upgrades to downgrades and was partly responsible for the FT-SE Mid 250 index falling 19.2 to 4,365.3. The Mid 250 has outperformed the Footsie by 10 percentage points

since the start of the year. Some attention was taken away from equities by the latest UK government bond auction, which was covered 4.5 times and described by one trader as "the most successful

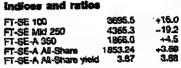
And in the US there was a return of inflationary concern after the Commerce Department announced that orders for durable goods rose by 3.3 per cent in May, the largest increase for almost a year. With the Dow Jones Industrial Average down by about 10 points when London closed, the FT-SE 100 ended 16.0 up at 3,695.5, back towards the bottom of its recent trading range which is seen to be between 3,650 and 3,850.

Mr Robin Griffiths, chief techni-cal analyst at HSBC James Capel, said his forecasts had been "temporarily embarrassed by the plunge below 3.700". But he believes there is no reason for concern as long as the Footsie holds above 3,650.

"This is actually a cheap market well noderwritten by fundamentals. We know the cliche about selling in May and going away, but unfortunately we forget it every year,







FT Ordinary index 2720.7 FT-SE-A Non Fins p/e FT-SE 100 Fut Jul +10.0 38.7 10 yr Gift yield 7.98 Long gift/equity yld ratio: 2.16

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Health Care Engineering: Vehicles

TRADING VOLUME

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Broker move hits S&N

A profits downgrade hit health care group Smith & Nephew, sending the shares lower.

The stock lost more than 4 per cent of its value after falling 8% to 200%p, the worst performer in the Footsie. Volume hy the end of the session stood

at 6.5m shares. ABN Amro Hoare Govett downgraded the current year profits estimate by 3 per cent to £189m and the following year's by 4 per cent to £201m.

Analysts at the securities house said the move was because "growth in Smith & Nephew's US businesses has been slower than we had anticipated, being around 1 per cent

rather than 3 to 4 per cent". They said they expected weakness in the share price in the short term but believe the stock to be undervalued for the long term, "because of the value that resides within the research pipeline".

Tomkins rebounds

Leading conglomerate Tomkins was the best Footsie performer in heavy volume as brokers upgraded earnings forecasts following regulatory approval for the Gates Rubber

"The sense of relief is almost overwhelming, and the robust trading statement from Gates is an added bonus," said one analyst.

Shares in Tomkins have

been weak since early May, day. Volume at the close was sliding from 280p on concern 89m as the shares edged forabout the takeover of Gates, a privately owned US group. Yesterday they jumped 13 to 249p in volume of 12m.

Gates' sales, hit by the strike at big customer General Motors, have been flat. But the company claims a better mix of business and improving mar-gins. Some brokers predict strong profits gains at Gates next year.

Kleinwort Benson lifted its profits estimates by 15 per cent. The broker has moved its forecast up by £58m to £410m for this year. This translates into a 2 per cent increase at the earnings per share level.

Builders weak

Construction shares moved against the trend, with house-builders in particular showing clear weakness.

The announcement that Costain was to miss its results deadline cast a shadow over building issues, but in general brokers could pinpoint no obvious reason for the downturn.

There was talk of market makers tightening their positions in the sector ahead of the sommer slowdown in trading. There were also signs of profittaking after the recent uptick following good news on mortgage demand and house prices. Wilson (Connolly) came off 6 to 168p, Redrow Group shed 4

fell 4 to 150p. Barratt Developments gave up 6 to 256p. Costain stopped trading at 390 (down 31) after the company requested a suspension in the face of heavy selling. National Grid was once

to 132p and George Wimpey

ward to 171p. While several market watchers pointed to tax-related trading as a possible reason for the heavy volume on both Tuesday and

Wednesday, one analyst suggested it might have been an agency cross. Renters advanced 14 to 778p in trade of 3.4m. The company has been seeing brokers ahead

of interim figures due next Satellite broadcaster BSkvB was one of the day's best Footsie performers after SBC Warburg upgraded the stock from

"add" to "buy". The shares gained 12 to 434p, with the broker said to be particularly positive on the impact of the move from analogue to digital technology. An agency cross was said to have been carried out in the stock at 430p, which contributed to the day's volume of 3.4m shares.

FINANCIAL TIMES EQUITY INDICES

_	JUN 26	TUT 25	Jun 24	Jun 21	Jun 30	Yr ago	Tilgh	Low
Owlinery Share	2720.7	2714.1	2735.9	2743.0	2749.4	2467.9	2885.2	2696.7
Ord, div, yield	4.03	4.12	4,09	4.07	4.07	4.30	4.12	3.76
P/E ratio net	18.38	16.02	16,14	16,19	16.22	15.49	17.25	15.96
P/E ratio nii	16.29	15.93	16.05	16.10	16,13	15.25	17.03	15.76
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52 Week highs and lows June 26 Data based on Equity shares listed on the London Share Service.

LIFFE Equity optic Total contracts 46 43

U.S. \$750,000,000

Midland Bank plc

Undated Floating Rate Primary Capital Notes

Capital Notes

Notice is hereby given that for the sex
months interest Period from June 27,
1996 to December 27, 1996 (183
days) the Note Patre has been
determined at 6.00% per annum.
The interest payable on the relevant
interest payment date. December
27, 1996 will be U.S. \$305.00 per
U.S. \$10,000 nominal amount.

THE ROYAL BANK OF CANADA

U.S. \$350,000,000 Floating Rate

Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 28th June, 1995 to 31st July, 1996

has been food at 95% per enum. On 31st July, 1996 interest of U.S. \$5.098958 per U.S. \$1,000 nominal

£200,000,000 Floating Rate Notes

due 1997

For the Interest Period 21st June. 1996 to 21nd September, 1996 to 21nd September, 1996 the Notes will carry a Rate of Interest of 6.0625% per armum with interest amounts of 2155.70 per £10,000 and £1,557.04 per £100,000 Note, parable on

£100,000 Note, parable on 23rd September, 1996. Listed on the Lorendourg Stock Enchange.

Company, London Agent Ban

By: The Classe Manhattan Bank, M.A.

London, Agent Bank

June 27, 1996

day's traffic figures for June. These are expected to show a good seasonal upturn after the relatively slack returns of

ing 19 lower to 325p, while April and May. Scottish Television retreated ntiment at airports group BAA continued to recover as brokers turn positive. The lat-British Biotech remained a market favourite in splte of est buy note on the stock comes from NatWest Securiannouncing a £143.4m rights ties. The shares added 3 at 471p issue and a nine-for-one capitalisation issue at the same in 5.2m traded. time as the release of its full-

Freight specialist NFC forged ahead 13 to 186p following news that chairman Sir Christopher Bland had acquired 400,000 shares in the company at 174p.

Security and telecoms group Securicor continued to lose ground ahead of today's results statement.

Cellnet, the mobile phones company in which the group has a 40 per cent stake, has been subject lately to worries about a high churn rate (subscriber withdrawals) and shrinking market share. The stock dipped 14 to 273p for a two-day decline of more than 6 per cent.

Kingfisher was one of the strongest performers in the retail sector, rising 9 to 637p. The group confirmed that it had secured a listing on the French stock exchange as well as lifting its stake in BUT, the French furniture and electrical goods retailer, to 26 per cent from 20 per cent. Kingfisher will have voting rights of just under 20 per cent.

BICC, the heavy electrical group with streable exposure to copper prices, fell 10 to 308p. A leading broker was said to have turned negative, and there was also talk of problems for the group in Germany.

Amstrad stayed firm following Tuesday's announcement iks with computer electronics rival Psion. The shares rose 6 to 190p, extending the advance to 43 in two days.

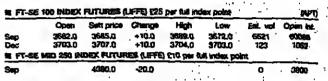
Danka Business Systems fell more than 2S per cent following a profits warning from the kers cut their forecasts, and the shares lost 195 at 490p. Panmure Gordon came down by £6.5m to £72.5m for this year. AIM newcomer Solid State Supply make a strong debut.

Floated at 80p, the electronics

group ended at 90p. There was continued interest in the spirits sector, with Grand Metropolitan rising 6 to 425p and Guinness 10 to 456p. Renewed speculation in the media that Guinness may be looking to acquire IDV, Grand-Met's spirits arm, was described by one analyst as "unjustified". Analysts said there was a strong buyer of

MARKET REPORTERS: Joel Kibazo, Lisa Wood, Jeffrey Brown.

FUTURES AND OPTIONS



IN FT-SE 100 INDEX OPTION (UFFE) ('3694) £10 per full index point

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FT GOLD MINES INDEX

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Drop in tech shares weighs upon equities

Wall Street

Tumbling technology shares weighed ou the US equity market as the Nasdaq continued the fall that has taken it down by nearly 8 per cent since its record high early this month, writes Lisa Bransten in New

In early afternoon trade the Nasdaq composite, which is weighted towards the technology sector, was off 22.79 at 1,149.88, almost exactly 100 points below its record close of 1,249.15 set on June 5. The Pacific Stock Exchange technology index, which inclodes shares traded on the Nasdag and the New York Stock Exchange, was 2.3 per cent

Weakness on the Nasdao spilled over into other indices, which were mostly flat throughout the morning. By 12:30 pm, bowever, the Dow Jones Industrial Average was off 41.37 at 5,677.90. The Standard & Poor's 500 fell 4.69 to 663.79 and the American Stock Exchange composite was 4.74 lower at 577.00. Volume on the

NYSE was 206m shares. Declines in the technology sector were widespread across most sectors of the market, with no earnings, and old-line companies, such as hardware ductor makers, losing ground. Falling semiconductor

shares included Texas Instruments, off \$2% or 4 per cent at \$48%. Motorola, \$1% or 3 per \$1% down at \$71%. Computer

Latin Americ

South Korea

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Indonesia

Sri Lanka

Portuga

Suro/Mid East

lower. Compaq dipped \$1% to \$46%, IBM \$% to \$98%, Dell \$2% to \$47% and Gateway 2000 \$1%

Among Internet-related

issues, Netscape retreated \$4 to \$54%, UUnet lost \$2% at \$64% and Yahoo! receded \$% to \$21. Iomega, the manufacturer of computer disk drives that had a price/earnings ratio of 169 in mid-May when its shares hit a high of \$54, tumbled \$3% to

\$22% and was the most actively traded issue on the iaq at midday. Eleewhere, investors appeared to be preparing for a elowing of the economy as defensive consumer non-durable shares outperformed cycli-

cal stocks. The Morgan Stanley index of consumer shares fell 0.6 per cent by midday yesterday, while the counterpart index of cyclical shares was 0.8 per cent

Falling cyclical shares in the Dow included Boeing, off \$1 at \$89%, Caterpillar, \$% weaker at \$67%, and General Motors, \$% lower at \$52%.

Canada

Toronto was depressed by worries about a rise in US interest rates, after the firmer than expected US durable goods numbers during the morning. The TSE 300 composite index was 30.55 down by noon at 5.039.00 in volume of 35.5m

prices dropped. Barrick Gold slipped 30 cents to C\$37.25. 10 cents at C\$20 on news that it had signed a deal to buy soft-

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

+20.5

Dollar terms % Change % Change

A warning was sounded yesterday that foreign investors might retreat from Bangkok's

to have sold more than \$60m worth of shares since the ban was imposed two years ago.

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ware bechnology from America Online for an undisclosed amount

Placer Dome, which unveiled plans to cut 100 of the 325 jobs at its Sigma mine, in an effort to curb high production costs, UBS shares held by BZ. lost 30 cents to C\$33.60. Another rumour was that

Latin America

São Paulo rebounded to recou Tuesday's 1.9 per cent fall and, by midsession, the Bovespa index was 1,202.45 higher at 62,027.

day's profit-taking followed three sessions during which the market rallied 6.7 per cent and was prompted by concern that the telephone companies would not be mentioned today when the government outlined its privatisation plans until the end of 1998

MEXICO CITY edged higher on continued bargain bunting and the IPC index was 13.02 firmer by midseseion at 3.173.00

SOUTH AFRICA Industrial shares moved shead

on optimism built on a prime rate cut by three more banks, healthy consumer inflation data and peaceful KwaZulu-Natal local government elections. Golds, however, were depressed by a dull builion price, although dealers said there were few sellers at the lower levels because of an expected upward movement in the gold price in the medium term. The overall index was up 22.1 to 6.913.9, industrials gained 28.6 at 3.172.8 and

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Financials take Zurich to all-time high

Strength in financials pro-pelled ZURICH to an all-time to 3,723.5.

UBS bearers climbed SFr38 or 2.7 per cent to SFr1,230 in rumour driven trade. One umour suggested that Mr Martin Ebner's BZ banking group wanted to buy CS Holding's Benk Leu, in return for which CS Holding would receive the

the bank might have sold its. hospital group, Hirslanden, for up to SFr500m. A more mundane explanation was that the shares were driven by warrants due to expire in Mid-July. CS Holding was SFri.50 higher at SFrii7.75 and Swiss Re registered shares picked up SFr22 to SFr1 280 on the view that both were recent under-

nerformers. Swissair added 1.2 per cent. as it hurdled a key resi level and as recent consolidation presented a buying opportunity. The registered closed SFr23 higher at SFr1.715, off a day's peak of SF11,235.

Analysts said that the shares overcame resistance at SFr1,190, which triggered buying, as had a reassessment of the May load factor data, reported on Monday, which initially disappointed some

The Novartis partners overcame an early consolidation of their recent strong gains.

Sandoz finished SFr9 shead at SFr1,432, up from a low of high, the SMI index rising 28.9 SFr1.410, while Ciba was SFr2 ahead at SFr1.521 after SFr1.499, in spite of expectations that the European Commission was likely to impose conditions on the marren because of the company's strong position in the crop protection market Roche certifi-

cates jumped SF165 to SF19,465. FRANKFURT was unable to break through Tuesday's new Ibis highs. But banks mnroved, first on news that Bentsche Bank was considering the reduction or outright sale of some stakes in a mimber of industrial companies and secondly on unchanged West German CPI figures for

Deutsche rose 65 pfgs to DM71.63 in a relatively strong sector, where the interest-rate sensitive Bayernverein led with a gain of 90 pigs, or 22 Among the insurers, Gener-per cent, at DM4208 Daimler, all fell 1604 to L35,101, in which Deutsche owns 24.8 Alleansa was down L416 to per cent, declined DM10.10 to ...

Another comaker was hit by Europolitics, Volkswagen drop-ping DMS.85 to DM554.80 after the European Commission prohibited DM240.7m in invest-ment aid promised to two former East German plants VW said that it would helt its plans for additional invest-

feared that the loss figure

could be larger and Moody's,

the US credit rating agency,

said yesterday that it was

including Sumitomo's short

term deht in its ratings review.

Y32 to Y316. The company is the second largest shareholder in TV Asshi, the national tele-

vision network of which 21 per cent will be bought by a joint

Toel, the film company, rose

Flat slipped L46 to L5,153 in ment at its Sazon car engine plant in Chemnitz: and an

FT-SE Actuaries Share THE EUROPEAN SERIE 11.89 12.00 13.00 14.00 15.00 Class FT-6E Eurotenck 100 1667-80 1697-90 1697-19 1698-01 1697-96 1699-90 1699-10 FT-6E Eurotenck 200 ... 1723-39 - F722-28 1721-77 1723,11 1724-62 1722-73 1723-99 1723-65 Jun 21 Am 20 Jun 18 Jul 25 Jun 24 1690.97 1685.00 1884.92 1722.72 1718.34 1720.09 1721.05

Euro 96, meanwhile, could do no more for Adidas. With the Germany/England semi-final to be played last night, the sports wear group fell another DMS 20 to DM126, a two-day drop of 5.3

per cent weakness in the insurance sec tor after hopes of an immediate interest rate out were dampened by remarks from the Bank of Italy governor Mr Antonio Faxio. The real-time 1.12.980 and SAI gave up L299

to L14.951. Against the trend, ina rose 1.27 to 1.2.297. The stock bas held steady since the Treasury announced late last week that it would sell off a third and final tranche of shares in the insurer through a convertible bond issue.

apite of upbest remarks by Mr. Cesare Romiti; the chairman,

while the Italian motor market had been difficult in the first part of 1996, the second half

should show improvement. PARIS, where the opening was delayed for three hours by technical problems, saw a slight technical correction. The CAC-40 index lost 5.15 at 2 118 28 in modest turnover of FFr3.84bm, BNP fell FFr7.70, or 41 per cent, to FFr179.90 after a two-day gain of 6.8 per cent last Friday and Monday. Eurotunnel dipped 35 centimes, or 3.9 per cent, to FFr8.55 follow-

News based moves included fall of FF17 to FF1706 in Peugeot the carmaker's chairman said again that the busi-ness climate was difficult Pechiney. FFr2.20 lower at FFr216.20 on caution over earnings prospects; and Pinault-Printemps Redoute, FF130 higher at FFr1 787 after the oker Massonaud confirmed its positive recommendation of

ing a 10 per cent gain since

the retailer's stock.

market, and its knock-on effect on Ericsson and Volvo, against recovery in Astra after Tuesday's losses. Overall, losers outweighed winners and the Affärsvärlden General index fell 5:3 to 1,975.2.

Astra A rose SKr6 to SKr293, but Ericsson B fell SKr450 to SKr141.50 on rumours of an impending profits warning, and Volvo B. US influenced,

slipped SKr3 to SKr150. WARSAW rose for the fourth straight session, closing at a third consecutive 26-month high. It was led ahead by largecapitalisation stocks such as banks. The Wig index roge

191.2 to 13,861.9. Some of the day's best performances were seen in shares picked in a draw to start continuous trade on July 8. Elektrim rose 1.30 zlotys, or 5.9 per cent, to 23.20 zlotys.

MOSCOW hit yet another new peak, the Moscow Times index climbing 17.42, or 5.4 per cent, to 337.89, up by around 90 per cent since mid-May.

Traders said western investors were flooding the market with hny orders, convinced that Russian President Boris Yeltsin will win re-election next Wednesday, and that the ousting of four hawks from the president's team of ministers pointed to further reform.

Written and edited by William

Worried Seoul in third consecutive decline

Worries about the South Korean economy, and a heavy overhang of margin loans, took SEOUL into its third consecutive decline. The composite index closed 13.31 lower at 823.63, down 4.7 per cent on the week so far.

Fears that the economy was on a downturn combined with margin loan overhang valned at Won2.600hn, to put great selling pressure on the market. One broker was looking for the index to fall to 780 in the short term. Others argued for a rebound, hoping for goverment intervention. such as an expansion of the foreign stock ownership limit and a postponement of planned IPOs and rights issues.

Tokyo

The decline in the yen lifted large-capital steels and export blue chips, and the broad market gained ground, writes

Emilio Teracono in Tokyo. The Nikkei 225-share average was finally 69.63 up at 22,666.80 after moving between 22.572.85 and 22,750.70. Domestic institutions placed large-lot buying orders for steels and shipbuild ers, and the rise in the dollar against the yen also helped other cyclicals.

Volume totalled 458.9m shares, against 476m. Traders noted large-lot orders from Daiwa Securities. Arbitrageurs also stepped up their buying in tandem with the futures mar-ket, while investment trust funds indicated interest.

The Topix index of all first section stocks rose 6.60 to 1,722.13 and the Nikkei 300 by 1.13 to 319.70. Advances led declines by 611 to 412, with 209 in London the ISE/Nikkei 50

index put on 1.26 at 1.533.00. Foreign investors chased big internationals, and dealers looked for short term gains smong high-technology stocks. Sony rose Y50 to Y7,250 and Matsushita Electric Industrial Y50 to Y2,060. Carmakers, however, came under profit-taking

	venture owned by Softbank of
and Nissan Motor Y16 to Y974.	and News Corporation:
Sumitomo Corporation, the	Among speculative favour-
trading house, fell Y14 to Y965,	ites, Clarion, the car audio S
down 20.2 per cent since it	equipment maker; rose Y18 to 3
announced that it had lost	Y668 and Hanwa, the steel
\$1.8bn through unauthorised	trader, by Y38 to Y485.
copper trading losses. Domes-	In Osaka, the OSE average 4
tic and foreign investors had	In Osaka, the OSE sverage moved up \$1.54 to 28,795.48 in I
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moved up \$1.54 to 23,795.48 in volume of 71.2m shares.

pre-budget slide left BOM-BAY 1.6 per cent lower. The BSE-30 index shed 62.31 to 3.782.75. COLOMBO fell below the 600 barrier, the CSE allshare losing 4.88 at 599.10. But the traffic was not all one way:

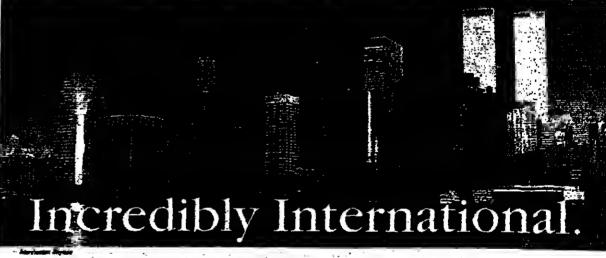
United Motors rose SRs3.25,

SINGAPORE investors sat on the sidelines, and the Straits Pimes Industrial index shed 14.10 to 2.284.96 in volume, traded through the Singapore dollar, of 48.9m shares the lowest this year KUALA LUMPUR had a harder time, Tand on more specific concerns The KLSE composite index dipped 16.11, or 14 per cent, to 1,130.77 on interest rate worries, following the comments of deputy prime minister Mr Anwar Ibrahim on Tuesday

that Malaysia was still concerned about inflation. JAKARTA reported active, foreign-led buying of bluechips The JKSE composite index

592.79, after 596.61, MANILA saw late-session accumulation of selected B shares and put it down to foreign investors. The composite index gained 23.81 at 3,240.39, in heavy turnover of 3.7bn pesos: -

HONG KONG rose on a better performance in the US bond market. The Hang Sens index closed 77.15 higher at 11.059.92 in that turnover of HK\$4.21bn. SHKNZHEN Bs had a technical bounce, rising 2.90, or 3.7 per cent, to 80.94. After hours, a bourse official indicated that the authorities' ban on Chinese citizens trading B shares was unlikely to be enforced to the short term



Anything to adjust in your Swiss Market Index "SMI" portfolio?

The new composition of the SMI as of 1 July 1998 will have e big impact on passively managed SMI portfollos. Credit Suisse is one of the main players in the Swiss equity market and therefore an excellent counterparty for your Basket-Trades. We would be proud to have the opportunity to assist you in evaluating your new portfollo and would be pleased to give you a competitive price for adjustment transactions.



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A warning was sounded yesterday that foreign investors might retreat from Bangkok's stock exchange if the country's sagging export growth was not reversed, and the high current account deficit showed no signs of narrowing. Thai Farmers Research Centre, a private research agency, added that improved economic indicators and a stable currency were necessary if the market was to recover in the second half of the year. After a sharp improvement which began last November, the market reached a peak for the year on February 8. Subsequent declines left the SET index down 13.5 per cent by last Monday, when it plumbed a 1996 low. The centre estimated that net foreign investment in the Thai bourse rose by Bt56.6bm during the first half of 1996, largely as a result of a strong foreign capital inflow during the first quarter. However, it warned that any doubts among foreign investors about the stability of the baht could hurt Thai stocks. Recent market speculation has suggested that the central bank might soon widen its dally baht trading range to discourage speculative imports of short-term funds that were used for arbitrage on the large gap between Thai and foreign interest rates. O Dhaka saw a third straight session of profit-taking yesterday after the steep rise which greeted the new government's pledges to run the country on the basis of a broadly based consensus, to maintain free market policies and to restore law and order. The DSE all-share index rose by 8 per cent between June 11, the day before the elections, and last Sunday. One analyst suggested the market was likely to move swiftly ahead again if the government, as expected, withdrew a restriction on overseas investors from selling initial public offerings within one year. Foreigners were reported to have sold more than \$60m worth of shares since the ban was imposed two years ago. FT/S&P ACTUARIES WORLD INDICES

REGIONAL MARKETS			— TU	COUNT J	UTE 20	744				- 20010	A SUME	Se 1889 .		—		<u> </u>
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Australia (79)	203.81	02	196.10	140.53	.162.35	171,36	-0.3	4.30	204.30	196.70	140,90	162,86	171.93	212.15	163.30	157,86
Austria (25)		0.2	179.13	128.37	145.29		0.2	1.92	185.86		129.15	147.98	147.92		166.11	199.25
Seiglum (27)	208.24	0.4	200.37	143.59	165.86		0.4	4.11	207.48		143.09	165.20	161,22	215.81	185,08	195.51
Brazi (28)	178.53	-1,8	171.78	123.10	142.21	329.54	-1.8	2.01	181.80		125,35	144.75	335,97	181.80	123.07	130.58
Sarada (99)	181.29	0.2	155.20	111.22	128.48		-0.1	2.40	160.94	184,95	110.99	125.14		195,12	184,14	
Denmark (30)	299.84	0.0	288.51	206.75	238.84	240.50	0.1	1.85	299.79	289.63	206.76	236,69	. 240.47	305,17	276.05	
intend (23)	, 190-99	-0.6	183.77	131.70	152,14	186.36	-0.5	2.06	192.07	184,92	132.47	152.93	197.20	278.11	171.73	239.43
rance (97)	195.37	08	187.99	134,72	155.63		0.9	3.02	193.65		133.69	154.34	157.75	198.39	167.70	· 185.89
Sermany (50)	171-34	0.2	164.86	11814	136.48		0.2	1,82	171.03	164,67	117.95	135.18	138,18	174.35	155.86	
long Kong (59)	429.71	0.3	413.47	296.30	342,30	426.93	0.3	3.34	428.56	412.62	295.57	341.22	425.83	451.19	848.51	359.00
eland (16)	285.59	-1.1	274.89	197.00	227.57	254.53	-1.0	3,37	298.68	278.13	199.23	230.01	257.09	290.82	233.90	287.72
taly (50)	82.84	1.0	70.71	57.12	65.99	94.84	0.7	2.32	81.00	78.94	58.64	65.28	94.34	. 84,55	67,22	76.80
lapan (481)		-0.2	151.96	108.90	125.81	108.90	-0.2 -0.4	0.70	158.25	162.36	100.14	126.00	109.14	164,88	137,75	147,82
Astaysia (107)	562.15	-0.5	540.90	387.62	447.79	541.04		1.65	584.78	543.75	389.50	449.97	543,45	585.00	425.77	649.25
Applico (18)	1210.18	1.3	1164.41	834.45		10058.29	0.9	1.32	1195.04	1130.57	824.16	951,50	9976.50	1325.65	791.86	357,31
Vetherland (19)	293.79	0.2	262.68	202.58	234.02	230,25	0.3	8.13	293.09	282.18	202.13	233.36	229.82	299,69	245.79	251.12
Very Zenland (15)	79.45	0.0	78.45	54.79	53.29	82,18	-0.2	4.36	79.47	76.52	54.81	83.28	82.32	.85.49	75.94	. 90.06
loratry (35)	248.19	-2.6	238.81	171.14	197.70	220.32	-27	2.08	254.88	245.20	175,78	202,94	226,45	256.94	222.24	232.38
tnospore (44)	422.00	0.2	406.05	290.99	336.16	274.50	0.3	1.35	421.00	405.33	290.35	335,20	273.51	485.21	355.61	381.73
buth Africa (45)	363.44	0.6	349,70	250.61	269.51	345.75	0.8	2.09	361.43	347.98	249.27	287.77	344,04	437.75	339.37	348.86
pain (37)	162.60	-0.1	175.03	126.05	145.61	178.45	0.0	3.19	182.94	176.13	126.16	145.65	178.50	152,99	145.15	148.25
weden (46)	356.58	-0.4	343.39	245.08	284.26	350.24	-0.7	2.43	358.10	344.85	247.03	285.12	352.53	360.77	266,46	269,38
witzerland (38)	_239.38	-0.1	230.33	165.06	190.58	187.52	-0.1	1.58	230,65	230.73	185,28	190,81	187,72	252.34	191.24	203,14
halland (46)	182.86	-0.4	156.70	112.30	129.73	160.29	-0.4	2.06	183,44	157.35	112,72	130.13	160.87.	183.95	148.74	171.42
nited Kingdom (200)	229.78	-0.8 -	221.10	158.44	163.64	221.10	-0.9	4.25	231.73	223.11	159,62	184.51	223,11	237.43	210.29	219.96
ISA (627)	271.87	-0.1	261.59	197.46	216.56	271.87	0.1	2.18	272,97	261.95	197.84	215.53	272.07	275.47	221.68	224,57
mericas (772)		-0.1	238.97	171.25	197,83	208,77	-0.1	2.18	248.54	239.29	171.41	197.88	208.85	252.43	203.00	205.54
жоре (714)	209.24	-0.2	201.33	144.26	166,68	184.08	-0.2	3.08	209.57	201.77	144.53	155.85	184.43	211.58	187.21	101.87
ordic (136)	.303.68	-0.6	292.20	209.40	241.90	263.14	-0.8	2.33	305.48	294.10	210,67	243.21	265.16	305.51	258.78	287 14
acific Betin (831)	170.56	-02	164.11	117.60	135.86	119.60	-0.2	1.18	170.85	164.49	117.83	136.03	120.03	177.01	148.86	157.57
uro-Pacific 1545	185.56	-02.	179.51	128.84	148.61	144.21	-0.2	2.05	186,87	179.92	128.88	148.79	144.48	190.57	188.51	171.94
orth America (728)	265.03	-0.1	255.01	182,75	211.11	264.30	-0.1	2.19	265.20	255.33	182,90	211.15	284.50	280.52	216.79	219.55
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医国际共和国

As Chinese leaders reach a crucial stage in their programme of economic reform, Tony Walker examines their priorities both at home and abroad

Year of the watershed

China faces a critical 18 months in its continuing efforts to advance its market reforms, preserve economic and social stability and further integrate its economy with the global system. There is little room for complacency.

Indeed, 1996-1997, the first year of the ninth five-year plan (1996-2000), is likely to prove something of a watershed in the country's transformation from a rigid centrally-planned system to a market economy, nd in China's relations with the outside world.

Challenges loom on many fronts. Among them will be the resumption of sovereignty over Hong Kong at midnight on June 30, 1997. China will need a deft touch in dealing with fractious Hong Kong democrats: the international community will be poised to criticise the first sign of Beijing's heavy band,

Preservation of confidence in Hong Kong will be governed to an extent by a relatively trouhle-free transfer of power. Chi-na's own credibility will be at stake, but it is not clear that the country's leaders under-stand fully the dimensions of

In a special interview for this supplement (see story, page 3), the premier, Mr Li Peng, said that China is committed to a "stable transition and smooth transfer of government" and e over n dignified and honourable manner". These are positive sentiments, but the practicalities of ruling through surrogates will require a greater degree of sensitivity than Beijing has displayed so far on issues such as the planned liquidation of the popularly elected Legislative Council and proposed restrictions on press freedom.

The Hong Kong takeover will be followed later in 1997 by a Communist Party Congress an event held every five years, whose importance in Chinese terms cannot be overstated. Adding immeasurably to the significance of the 15th Congress is the fact that it will endorse a new leadership and policies to carry China into the next millennium. Officials have been talking increasingly about these crucial "trans-century" tasks.

They include building the infrastructure necessary to underpin China's desires to become an economic super-

sis on ambitious capital works projects such as the \$30hn Three Gorges Dam oo the Yangtze, which will be com-pleted in 2009, China has formulated a longer-term 15-year strategy. This provides a blue-print for development well past 2000 and envisages expenditures of up to \$1,000bn on infrastructure in the decade and a half to 2010 - a figure that pro-vides an indication of the scale of changes to be wrought in the next stage of China's eco-

nomic revolution. In the current phase, there is the risk that preoccupation with internal politicking in preparation for the congress will deflect attention from reforms. The leadership continues to be enmeshed in a difficult transition to a new generation to replace that of Mr Deng Xiaoping, the ailing 91-year-old patriarchal leader, whose lin-gering departure from the scene is proving to be a heavy burden on his successors,

But, at the sama time, the country's rulers will be anxious to present China's best face not only to an international andience, but also to a domestic constituency. These essures have implications for both economic and foreign policymaking. Like their counterparts in

the west, Chinese leaders are themselves running for office. As well as ensuring that the ceeds smoothly, they will want China's economy to be seen to have made a "soft landing" after the problems of overheating and excessive inflation in the 1993-1995 period.

A credit squeeze imposed in August-1993 has gradually wrung inflation from the economy: retail prices are forecast to rise about 10 per cent this year compared with 21.7 per cent in 1994. Economic growth bas been brought down to about 10 per cent and the target for 1996 is 8-9 per cent.

But economic policymakers face difficulties over the next year or so in maintaining robust levels of growth while holding down inflation. Worries have begun to surface about the economy slowing more quickly than desirable, and inflationary pressures may build again in the second half of this year. However, the first five months' figures show a continued downward trend in inflation and economic growth being maintained. On the other

slowed markedly, raising questions about an "overvalued"

China cut interest rates on May 1 as part of efforts to ease pressures on debt-burdened state enterprises and to encourage increased economic activity. Credit has been easier since the last quarter of 1995, but central bankers insist that tight monetary policy will con-

so," the report said.

"To do this, the government

will need to maintain the

momentum of reforms in two

strategic directions. The first

would place greater reliance on

market forces, with an empha-

sis on state enterprises and the

financial sector. The second

would stress restoring the

health of government finances

by raising government revenue

as a share of GDP and shifting

the focus of government expen-diture policy toward such pri-ority areas as health and edu-

cation, poverty reduction,

infrastructure development,

and environment protection."

China's leaders appear con-

vinced, bowever, that a "grad-

ual" approach is most appro-priate. "We think that the market plays a fundamental role in the allocation of

resources; but in China, a

socialist country, its role can

only be brought into full play

under the government's macro-regulation and control." says

Mr Li's message is clear: the

leadership plans to keep a tight

rein on economic, political and

will continue to be given to economic reform, but greater

emphasis will be placed on

what the premier describes as

growth economy to an inten-

sive growth economy, or

rather, change from quantita-

tive growth to more efficiency

countries. In China, which is at

a relatively raw stage of eco-

nomic development, the task is considerable. It is, however, a

measure of the apparent grow-

ing self-confidence of China's

encourage more effective use

of scarce resources, China has

earmarked, in its ninth Five-

Year Plan, expenditures of

\$300hn-400bn on improving

power supplies, telecommuni-

dership that it feels able to begin refining its priorities.

Apart from seeking to

Fine-tuning an ecocomy is never easy, even in the most sophisticated industrialised

oriented growth".

"shift from an extensive

Premier Li Peng.

Working in favour of a steady economic course is what appears to ba a fair degree of consensus among leaders about the way ahead, although individuals may differ on the pace of reform. By and large, China, in its economic reforms, is following the script laid down hy the Third Plenum of the 14th Party Central Committee in 1993. This established a frame-

work for financial sector reform and also addressed the vexed issue of public ownership - a potential battleground in a system that remains nomi-nally "socialist". The decision

In the current phase, there is the risk that internal politicking will deflect attention from reforms

to preserve government control over key sectors helped define those areas that could be hived off to the private sector.

But reform of the state sec-tor, half of whose enterprises are loss-making, is proving a "stop-go" affair. The leadership makes much of its commitment to the "re-structuring" of state-owned enterprises, but political worries about unemployment mean that progress is painfully slow. The World Bank, for one, is urging a more determined effort arming in a recent report* that speedier reform is critical to China's continuing economic transformation. The bank has also pressed Beiling to pay greater attention to improving central government finances, one of

hina's glaring weaknesses. "Efficiency gains from eco-nomic reforms have played an important part in China's impressive growth performance since 1978. Harvesting

sources, including, increasingly, commercial borrowing. One of the main aims of increased infrastructure spending (see story, page 5) is to overcome striking regional disparities - between relatively prosperous coastal regions, where the bulk of foreign

investment is coocentrated, and an impoverished hinterland. Improved communications is seen as vital to the process of nurturing the "creeping prosperity" that is making its way across the country from east to west. Other pressures on the lead-

ership to redouble efforts to bind the country together include renewed concerns about "separatism" on China's frontiers. Drawing lessons from the break-up of the for-mer Soviet Union, China has taken a strong stand recently against separatist activity in its far-west Xinjiang region and in Tibet. Beijing is also

Mongolia, whose ethnic people need only look across their frontier to Mongolia itself to witness a fairly robust process of democratisation.

Worries about separatism are also linked to the Taiwan issue, which continues to figure largest among all Chinese concerns, outstripping even the economy in its impact on domestic leadership politics. China's overheated response

to last year's visit to the US by the president of Taiwan, Mr Lee Teng-hui, and to presidential elections this year is related directly to leadership manoeuvring in Beijing during a difficult political transition. No Chinese leader can afford to he seen as "soft" on the Taiwan issue, bence a tendency for aspirants to seek to "outbid" each other in fashioning hardline responses to Taiwan's attempts to secure more international breathing

space. All the sound and fury during the March presidential poll, including missile tests into waters near Taiwan's main ports, also provided a platform for the Chinese military to flex its muscles both militarily and politically.

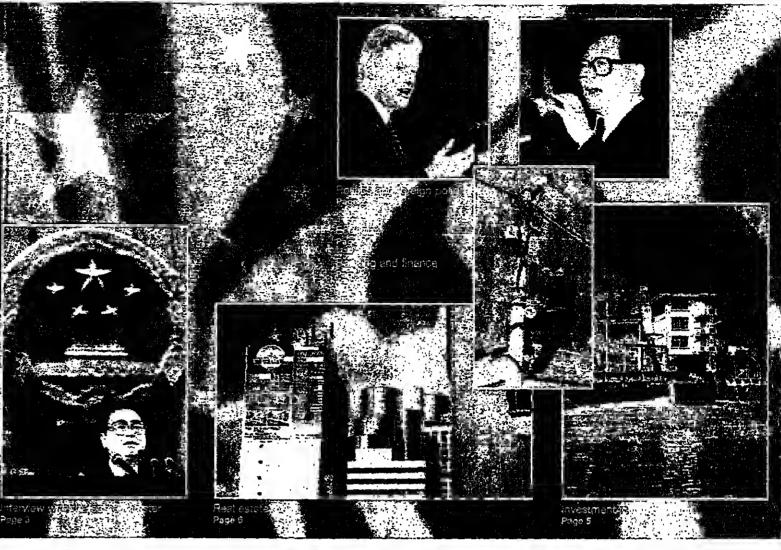
China's defence forces, which have been something of a "poor relation" during earlier stages of the country's economic transformation, seem likely to be given greater resources in the next period. China's conventional defence capabilities lag well behind its political and economic aspira-

Tensions across the Talwan Strait are certain to continue to be a feature of China's awkward dealings with the outside world, and the US in particular. Mr Li was not exaggerating when be said in his FT interview that concerns about Taiwan were at the "core" of problems with the US.

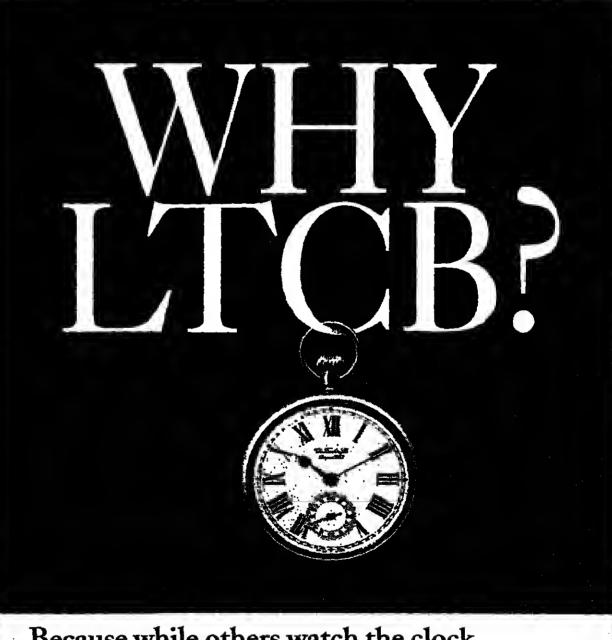
although be did sound a concil iatory note wheo he said that Sino-US relations were "some what improved compared

with a few months ago. In turn, angst in Beijing over Taiwan feeds an incipient Chinese nationalism that might suit the leadership, especially since discredited Communist ideology hardly provides a bea-con for a modernising state. China's rulers are not only groping for an appropriate economic model with "Chinese characteristics", but are also facing the difficult task of refashioning political institu-tions to match the process of economic liberalisation. In these efforts, there is no guarantee of success.

The Chinese Economy: Fighting Inflotion, Deepening Reforms by the International Bank for Reconstruction and Development/World Bank, 1818 H Street, N.W. Washington, D.C.,







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Politics: by Tony Walker

President takes pragmatic line

Jiang Zemin is trying to keep all factions happy in the run-up to next year's congress

When the president, Mr Jiang Zemin, was photographed earlier this year wearing a Mao suit - a high-necked, militarystyle tunic favoured by earlier generations - his style of dress was widely interpreted as a sop to Communist party conserva-

Indeed, Mr Jiang's choice of Mao-era garb coincided with an unusually tough speech in which he assailed an erosion in social standards. "We must strictly ban the cultural trash poisoning the people and social atmosphere," he said. "We cannot sacrifice culture and Ideology merely for a short period

of economic development. This followed a similarly conservative statement on the role of China's state-controlled Journalists, be observed, had an exalted calling as servants of the state because they were "engineers

These statements were clearly aimed at a conservative constituency and followed cirument sponsored by a former party propaganda chief that warned that rapid economic reform was sowing the seeds of the party'e destruction.

Growth of the private economy at the expense of the public sector could ultimately destroy socialism's foundations and provide a platform for the emergence of a new political force hostile to communism, warned the document, entitled Some Elements that Affect our National Security, But Mr Jiang, who is some-

times described as head of the "wind" faction in China's leadership - a comment on his shifting views - was playing a different tune in May. On a visit to Shanghai be told local officials: "In the process of promoting reform of state enterprises, we must encourage exploration, liberate our thinking ... boldly experiment and charge forward.

These were hardly the sentiments of a dichard conservative and indicate that in some respects politics in China is not so different from it is in the west, Mr Jiang, with the 15th Communist party congress looming next year (party congresses are held every five

to all factions" This is typical of the ebb and

flow of Chinese politics as Mr Deng Xiaoping, the country's alling 91-year-old leader, fades slowly from the scene. China's "third generation" of leaders is constrained by a lingering interregnum, but in the interests of eelf-preservation they are obliged to take their factional politics seriously. In China, behind-the-scenes

months to whittle away some of his formal powers. It remains an anomaly of the sys-Exercises tem that be occupies China's against Taiwan three top positions - president seem to have of the state, general secretary of the party and chairman of given the the central military commismilitary a more There is talk of establishing a new party structure and prominent role

leadership manoeuvring tends to be a brutal game. The country is in for an interesting year litically, and Mr Jiang himself is certain to face tests of his leadership.

One possible consequence of preparations for the congress is that the reform process will continue to slow. As a western ambassador observed: "With water from the congress back-

reluciant to go out on a himh." There is much at stake. Not Under the present structure, only will the congress further there is no chairman or vicerefine policy to carry China chairmen. Mr Jiang, as general secretary, is the party's numinto the next millennium, but perhaps more importantly it ber one office bearer.

The congress will also put its stamp on critical changes to the central military commission. Generals Lin Husoing. and Zhang Zhen, veterans of the Long March, are due to retire as vice-chairmen of the CMC, opening the way for younger generals to assert

The military appears to have secured a more prominent role for itself as a result of the exercises against Taiwan during the past 12 months. Its importance as the ultimate guarantor of state security also enhances its influence at a delicate moment of political tran-

At this stage, there is no conspicuous sign of the military overreaching itself. However China's new generation of politicians, whose military credentials are weak or non-existent. have no choice but to pay careful attention to the views of the defence establishment. Military influence is not likely to diminish and may get stronger in this next period.

Knocks before entry to the world club

Despite recent accords, China and its economic partners face further hurdles in reconciling their interests

■ Trade: by John Ridding

China and the US have pulled back from the brink of a trade war over intellectual property rights, striking a deal at the final hour. But the broader task of reconciling the commercial interests of Beijing and its economic partners still promises to be a protracted and problematic affair.

Like Japan and some of the east Asian tigers before lt, China has found that dynamic trade growth has been matched by an equally rapid escalation in trade tensions. Despite this month's agree-

"The resulting imbalance is spawning pressure in the US to take corrective action," says the US-China business council. The most recent figures could take some of the heat

out of the issue. China recorded a trade deficit of US\$1.2bn in the first quarter, reflecting the reduction of export incentives, a rush to beat an April deadline for tax breaks on imports of capital equipment, real currency appreciation and, in China'e view, restrictive measures in overseas markets. Mr Li Zhongzhou, director general at the department of international trade and economic affairs, believes China may

face a trade deficit this year. The hands of trade warriors may also be stayed by the role of foreign companies in China's trade machine. Foreign invested enterprises (FiEs)

role. According to the US-

China business council. FIE

exports totalled US\$36.6bm in

the first nine months of last

year, an increase of 45 per

cent, while imports climbed 23

issues go deeper than numbers

on the trade account. "It is not

simply an economic or a trade-

matter," says Mr Li Peng.

There are some countries in

the world, out of their political

needs, that are trying to block

a 30 per cent reduction in

average tariff rates in April.

For both sides, however, the

per cent to US\$49hn.

This, it is claimed, should clear the way for WTO mem-

China's partners respond that they still see insufficient progress in trade liberalisation measures and market access; and point to specific problems months. Beijing's announcement, for example, that it will assert a monopoly on the dissemination of financial news data has been strongly condemned by Sir Leon Brittan, vice president of the European Commission. Speaking after a recent visit to Ching. he described the move as "an extremely inappropriate initiative" that contravened the principles of the WTO.

Despite the acrimony, trade officials hold out hope for progress over coming months. There are some indications that the stand-off will be eased, particularly with progreas on the IPR issue and MFN renewal," says one western diplomat. He sees potential for advances at the WTO trade talks in Geneva and, in particular, at the WTO ministerial meeting in Singapore at the end of the year. "That comes after the US presidential elections, so politics should be less prominent," he says. Prospects have also been brightened by progress on financial reform, notably last week's announce ment of currency convertibility for leading current account

transactions. Whatever the outcome, the trials of recent months have prompted China to reassess its trade patterns and to focus on trade diversification. "We have to reduce our depenon the US," says Mr Li at the trada ministry, predicting a rise in intra-regional trade and increased opportunities for

European companies. The recent award of an aircraft contract to Airbus, the European consortinus, was seen as a blow to Bosing, the dominant supplier of China's aircraft needs, and a warning to the US about the costs of amercial disputes...

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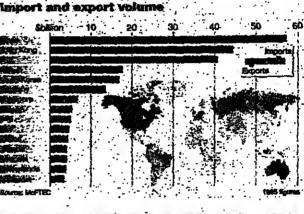
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"We will not use Europe as a weapon against the US," says one senior Chinese official. "But we camot be dependent risk of trade wars." There is rhetoric in these words. But there is also the reality of a bumpy ride before tensions can be defused.



ment on IPR, wrangling continnes on the terms of its membership of the World Trade Organisation, the renewal of its most favoured trading nation states with the US, and on some specific com-

Amid the discord, there is agreement on the stakes involved. Without China, says Mr Li Peng, the World Trade Organisation should rename itself the Regional Trade Organisation. The prime minlster's point, that China is too important to be sidelined by the international trading community, is readily endorsed in the US and Europe It is also backed by China's

trade performance and prospects. Last year, exports totalled an estimated US\$149bn, a rise of more than 20 per cent. Overall trade is forecast to rise from about US\$280bn last year to US\$400bn by the year 2000, according Mrs Wn Yi, minister of foreign trade and economic co-operation.

Within the overall pattern there has been an accumulation of trade surpluses. As the World Bank says in a recent report, China experienced a swing of 5 percentage points: in its current account balance in two years, from a deficit of 3 per cent of Gross Domestic Product in 1993 to a surplus of more than 2 per cent last year. Although distorted by the effect of re-exports through Hong Kong (see chart, right). the surplus with the US has risen particularly sharply.

China's entry to the WTO." Chinese trade officials argue that the US stance has been partly dictated by presidential politics and partly by a perceived threat from the rise of on a country where there is a China's economic power. They point to measures aimed at facilitating WTO entry, citing

Adjusted US trade flows and deficit with Chi

Foreign affairs: by Peter Montagnon

The mark of the bogeyman

Recent events have China's most tortuous one.
Chinese officials and foreign damaged China's image. Can it now re-open a dialogue with the US?

Of all China's relations with the outside world, that with the US is regarded as the most important, both because the US is the world's single remaining superpower and because of its importance to

China's trade. Thus the issue of Sino-US relations surpasses others, such as the recovery of Hong Kong - about which Chinese officials, in public at least, are quietly optimistic - or relations with Russia, strengtbened by the recent visit by the president, Mr Boris Yeltsin. But the US relationship is also

years), is running for office

policy analysts admit it is in trouble on several fronts, but say this is a problem of USmaking, resulting particularly from Washington's apparent sympathy for Taiwan. China, they believe, can do little to improve the situation, although they are less clear what they expect from the US in practice. Thus they find it hard to foresee any substantial improvement, et least before the US presidential election.

It is not just the old questions of trade, human rights and Taiwan. A new element has entered the fray since the Taiwan Strait missile crisis in March: the sense, compounded by recent strengthening of the US-Jepan security alliance, that the US is trying to make China into the region's bogey-

man, or even something worse. US decision to allow Taiwan's "We have no intention to president, Mr Lee Teng-hui, to take the place of the former Soviet Union and enter into a confrontation with the US," says Mr Chen Jian, assistant foreign minister.

There are no serious conflicts in the Asia-Pacific region, adds Mr Mu Huimin of the China Institute for Strategic Studies, but differences exist that can be resolved by dialogue. Mr Mu believes such dialogue should proceed on a multilateral basis and include the Association of Southeast Asian Nations. The creation in 1993 of the Asean Regional Forum, linking world powers in dialogue with regional governments, was an important step in this direction.

Into this benign approach, intrudes a harsher reality. China is still smarting over the visit the US last year, a slight that, some say, may have been made worse by the fact that a similar invitation has never been extended to China's president, Mr Jlang Zemin. Part of the trouble may thus be a feeling in China that the importance it attaches to the relationship is simply not reciprocated in the US.

will endorse a new slate of

leaders, including younger cad-

res, to assume responsibility in

Although Mr Jiang appears

to be relatively secure, there

may be moves in the next 12

creating two vice-chairman posts, one of which might go to

Mr Li Peng, who is due to

retire from the premiership in

Speculation has also focused

on the possibility of making Mr

Hu Jintao, a polithuro member.

secretary general of the party,

a position occupied by Mr

Deng Xiaoping in the 1950s. Mr

Hu is the youngest member of

the seven-man standing com-

mittee of the ruling politburo

the new era.

The support the US president, Mr Bill Clinton, has given to renewal of China's most-favoured-nation trade status has helped, as has the defusing of the trade row over intellectual property rights.

But recent strengthening of the Japan-US security alliance has revived fears that US policy is directed against China. "The joint security treaty was the product of the cold war," says Mr Chen. "With the end of the cold war, countries in the Asia-Pacific region are seeking to maintain peace and security through dialogue and co-opera-tion. The decision by the US and Japan to strengthen their joint security system goes against this trend."

Exchanges on both sides now often involve an emotional intensity that produces a kneejerk rather than a rational esponse to each new situation.

Though worried about Japan regaining military prowess, for example, Chinese analysts have little sympathy for the notion that the stronger US Japan alliance should enhance regional security by helping Japan resist any temptation to

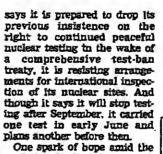
Some Western diplomats say that China's heightened sensitivity on matters of sovereignty reflects a deliberate nationalism whipped up to mask the regime's own internal lack of self-confidence. Others add that the level of weaponry used in the Talwan Strait missile tests marked a deliberate escalation of Chinese aggressiveness and that that necessitated a strong response from the US, regardless of the risk of a further deterioration in relations.

China is also sending out mixed signals in the area of non-proliferation. While it now

COUNTRY

SURVEYS

ON DISK



Clinton: his conciliatory gestures

can't eliminate all Chinese fears

confusion is that the US and China maintain they want to improve relations. Mr Anthony Lake, Mr Clinton's security adviser, is to visit Beiling later this summer. Mr Clinton and Mr Warren Christopher, his secretary of state, have both made concilietory speeches recently, and the signs are that the signals have been heard.

"Sino-US relations are some what improved compared with several months ago," says Mr Li Peng, the Chinese prime minister. It seems that people both within and without the US government have come to recognise the importance of China. That's why they advocate an engagement policy rather than an isolationist pol-

Other officials welcomed Mr Christopher's suggestion of regular Sino-US summits and more frequent exchanges at all levels of government. That might help restart a proper dialogue, but it will almost certainly have to wait until after November's presidential election. What happens after that will depend heavily on who

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but we know that our customers

around the world require more.

CHINA 3

..9,561,000 aq km

Yuan/Renminb

1996

840.4

683

N/A

10.0

9.0

38.43

101.6

135.7

-128.8

Imports

22.0

12.2

9.9

1995 \$1=Rmb 6.3499

.1996 \$1≈Rmb 8.3263`

111

Economy: by Peter Montagnon

Hard edge to 'soft landing' theory

Inflation is lower but export weaknesses and lack of revenue still blight performance

Cbina bas always baen ootorious for the violence of its economic cycles. This year, though, it is starting to look as though it may have achieved a soft landing from the inflationary boom that peaked in 1993.

inflation has fallen sharply. with the consumer price index rising 9.8 per cent in the year to March compared with 25.5 per cent for 1994. Retail price inflation, which has a smaller food component, was even lower at 7.7 per cent, but growth has beld up reasonably well so far. Gross domestic product rose at an annual rate of 10.2 per cent in the first quarter of this year compared with 11.2 per cent in the same period of 1995.

The good performance on prices allowed the central bank to announce a gentle relaxation of monetary policy in early May, with a cut of 0.98 percentage points in the oneyear deposit rate.

Although these developments bear the hallmarks of a soft-landing, the jury is still out. Some economists fear that the People's Bank of China whose governor Mr Dai Xianglong, refers to the interest rate cut as a "tentative, timely adjustment" - may have held

GDP growth

1991

Investment 50.3%:

Net exports 19.7%

on to its tight money policy too long. Mr Joe Zhang, economist at W. I. Carr in Hong Kong, argues that the central bank has stifled investment through its curbs on credit.

According to Mr Zhang, real growth in investment spending, currently running at around 5 per cent, is insufficient to replace woro-out assets so the capital stock of the country is shrinking. This, he says, will become clear as the economy continues to slow, and the anthorities may then have to err on the generous side in rekindling activity. That would bring a risk of bottlenecks and capacity shortages, so inflation might quickly take off again.

Such views are echoed by other international economists. Some argue that the high level of inventories, estimated at 5 per cent of gross domestic growth. But there is by no means universal agreement. Calling the turning point in any large economy is a notoriously hazardous task. In China it is made all the harder by the difficulty of judging the real policy stance.

Thus the optimistic school believes that the central bank, which remains publicly committed to a moderately tight money policy in the medium term, has in fact been quietly easing credit conditions for some time. Forward looking indicators, such as new loan growth - which was 14.6 per

Real GDI

Consumption 50.8%



The price is now right. A dumpling seller in Shanghai: the cost of living has fall

cent in the first quarter - suggest activity should start picking up again soon, says Mr Jim Robwer, Asia economist at CS First Boston in Hong Kong.

Mr Rajiv Lall of Morgan Stanley says that, with retail sales still growing at around 15 per cent, China should have no real difficulty meeting its growth target for this year of 8 to 9 per cent, even at current depressed levels of investment. Inflation might pick up somewhat, though, because China will this year have to raise grain prices again to boost rural incomes and encourage production.

As for the central bank, the governor Mr Dai says it decided to lower interest rates because price pressures had been declining for several months amid weak demand for investment, consumption and exports. If the price level goes on decreasing, the bank might consider easing credit again later in the year by making additional loans available to the farm sector and for cheap housing. "But." says Mr Dai, "overall we're not going to change our monetary stance."

Though the central bank is firm in its commitment to the fight against inflation, it must also confront some political pressures. Next year will be a particularly important one for China, not only because of the return of Hong Kong to mainland control, but also because of the party congress later in the Year

It is a fair bet that the government will want the economy to perform well through this period, but it will be some time before any definitive judgment can be made as to how far the authorities have managed to fine-tune the cycle.

Besides, there are some other strains with which China still has to grapple. A striking feature of this year's economic performance has been the weakness of exports, which fell by 7.7 per cent in the first four months of this year.

An important reason for this was tax. The government cut Vat rebates to exporters from 17 to 9 per cent and the finance ministry then allowed delays to build up in the payment of the rebates. Arrears total Yn55bn, and officials say it may take two years to catch practice remains unclear. up. If this were the only prob-

lem affecting exports, its impact might be expected to diminish over time, but there are also fears that a rise in the real exchange rate, of come 12 per cent last year, may have been damaging.

Mr Dai saye the exchange

rate is determined by the market and reflects capital flows as well as trade. He says he expects it to remain stable. Mr Shi Guangsheng, vice minister of foreign trade, bowever, edmits that the exchange rate level is causing difficulty for exporters, though he says it is not a key factor in export

World Bank officials say recent export performance has been worse among domestic manufacturers than joint ventures, which simply process imported inputs. This could be further evidence of the impact of a strong real exchange rate.

Partly because of this, the trade surplus is likely to shrink sharply this year from last year's \$16.5bn. According

to Consensus Economics. which calculates the average forecast from leading private sector economists in Asia, the current market expectation is for it to shrink to \$7.5hn, but many economists feel estimates could be adjusted downwards, and some Chinese economists think trade will be no

more than balanced.

China's current accounts, which last year were roughly in balance, may be less strong than at first sight appears. Morgan Stanley's Mr Lall points to the large \$16.6bn errors and omissions line in the balance of payments statistics, some of which he says should be applied to the services account, in particular, it appears that Hong Kong investors have been remitting large returns on investments in China, a factor that may also be supporting the colony's

At a more fundamental level. concern continues about China's poor level of tax collec-

11.2 five years, we can deal with

10.0

125.7 -110.6

Exports

proportion of gross domestic product slipped furiber to Even some larger companies around 11 per cent of gross domestic product last year bave been reining in their from 124 per cent in 1994 activities, cutting their employ-Most economists regard this ees' renuneration and making them work shorter hours. That as the central challenge facing way people's social benefits are the authorities: without more revenue, the government may protected, while they can seek not be able to afford much

needed if state enterprises are to be reformed. Perbaps surprisingly. though, China seems able to muddle through. Some progress appears to bave been made with the reform of state enterprises. Smaller ones have been closed down or sold and people have become aware of the risk of bankruptcy, says Mr Fan Gang, an economic consultant. "A few years ago, we now an essential task, whether didn't even Imagine that people would buy small compaor not the outcome qualifies as nies. Now we accept that In

needed improvements in

healthcare and education, or

the social welfare support

KEY FACTS

Total GDP (5bn)

Real GDP growth (%)

Private consumption

Annual change in:

Consumer prices (%) Wages (%)

Reserves minus gold (\$bn)4

Total foreign debt (\$ bn)

Stock mkt index (% change)

Foreign debt-service ratio 1%1

Current account balance (Sbn)

Main trading partners (1995, %)

Merchandise exports (Sbn)

Merchandise Imports (5bn)

Trade balance (Sbn)

Ind. production (46)

Agriculture (%)

Services (%)

Hong Kong

South Kores

US

Government consumption

ments of GDP (%)

GDP per capita (S)

Population Head of state

Currency

Exports

Imports

tion. World Bank estimates suggest that tax reveoues as a the medium-sized ones and in 10 years, maybe even the large

> at least part time employment in the private sector, While the private sector remains able to take up the slack, such a process can continue, but it is painfully slow and involves continuing financial support for ailing state enterprises, often through Chi-na's chronically weak banking system. Without a reasonably high growth rate, the balancing act would quickly become impossible. That is another reason why keeping the economy from decelerating too far before it finally recovers is

the many through any bright

Consumption 30.9%

INTERVIEW Li Peng, premier

Market plays important role

The prime minister speaks about the subjects that dominate Chinese thought and policy Mr Li Peng, China's premier, spoke to the Financial Times in Beijing recently. What follows are his observations on key issues facing the country.

the allocation of resources. In China, a socialist country, this role can only be brought into . full play under the government's macro-regulation and control. The Chinese government will resort to multiple means to exercise macro-control over the economy, such as through the plan, through fiscal policies, and through

We think that the market

plays a fundamental role in

Economic reform

monetary policy.

(

Economic growth and monetary policy We practise a moderately tight monetary policy and this will remain unchanged. However, we will somewhat ease controls over working capital for the production of marketable goods."

Entry to the World Trade Organisation "China maintains that if it is not able to join the WTO, that is of course a loss for it; but if



LI Peng: 'western-style democracy is not possible in China'

the WTO rejects China, then . that will also be a loss for the WTO. However, I cannot see the prospect of China's trade with other countries being affected if it is not a member of the WTO because China itself is a huge market. That is the reality. When I was in-France, we signed the contract with Airbus to buy 33 Airbus planes: We did not do it through the WTO."

Preferential tax policies for special economic zones Our basic policy towards the state-owned enterprises in China remains unchanged. Corporate income tax for the 15 per cent. I think this is fairly low compared with other countries in the world."

Foreign investment "We want more investment in unlike the Americans who arbitrarily resort to the threat of sanctions or the use of sanctions. This is the reason that has prompted China to enter into close co-operation with the Europeans. If the Europeans adopt more co-operation with China - not just in economic areas but also in political and other areas then I believe they will get more orders from China.

Policy towards Taiwan "So long as the Taiwan authorities can abandon pursuit of 'two Chinas' and can return to the position of 'one China' not just in word, but also in deed, then cross-straits relations will be improved and strengthened in a peaceful manner."

Resumption of sovereignty over Hong Kong There are less than 400 days before Hong Kong's sovereignty will return to China. The die is cast. This also accords with the aspirations of the people. The bastc policy of China is to ensure a stable transition and smooth transfer of government in Hong Kong. I can say that for all Hong Kong people - for each and every Hong Kong person - so long as he or she loves Hong Kong, loves the motherland, abides by the Basic Law, he or she can have a role to play in the future of Hong Kong.'

Political reform "Apart from our economic reform we will continue to promote our political reform. The purpose of political re-structuring is to make the government more efficient and to enable the people to play a bigger role to serve as masters of the state so that the capacities for developing the country can be mobilised. Some people in the west believe that along with economic development China will evolve more into a western democracy, but we think it is not possible here."

Interview conducted by Tony Walker, Peter Montagnon and John Riddina

Peregrine the Number One Asian Equity Lead Manager China Hong Kong Korea Propie Offering and Postaglar Shales. Integral indistript Holdings Shales Initial Public Offering of HiSheres US\$69,989,000 US\$29,902,000 US\$138,460,000 Taning States (Spang Trendn) Spanson and Engli Manager Lead Atmosper China Hong Kong Hong Kong Placing and Scarcust on at Shares. CRC Pacific Smited Private Placement of Shares Cravita Kong (Holdings, United February, 1974 Nonling Paren Segments Comed April 1988 US\$679,487,000 US\$419,146,000 US\$66,085,000 lega Undervirter and Placing Agent An incomparable knowledge of Asian business, combined with a global network of 35 offices, has made the Peregnine group a leader in Asian finance. In 1996, we have lead-managed equity transactions which have raised over US\$2 billion for Asian companies, moking us the number one bookrunner of

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infrastructure; we also welcome co-operation in the technical transformation of small and medium-sized enterprises in light industries. In the services sector we are also ready to co-operate. But in the area of banks and insurance companies we are

Relations with the US "The United States has tried various means to interfere in China's internal affairs. The core issue in Sino-US relations is the question of Taiwan. If the United States can observe in deed not just in word the three Sino-US joint communiqués then it will be possible to further improve and develop relations between the two countries."

Participation in the Three

not ready to open on a large

scale."

Gorges hydro-power project "China's biggest project is the Three Gorges project. But the EximBank of the US on the instruction of its government bas said it will not provide loans to American companies that want to bid on the project. This policy of the United States actually kills the opportunities of American companies to participate, But it will lead to no loss to China because it can obtain the same technology from the Europeans or from the

Relations with Europe

The Europeans have more favourable terms, more lenient terms. They do not attach

flood meets barriers

Foreign direct investment in China

Number of contracts (1000)

Amount contracted (Shillion

Tax reform and policy changes are setting new conditions for overseas investors

The flood of foreign investment that has buoyed China's economic expansion over recent years is now at a watershed. A more selective stance from Beijing, combined with fiscal and tariff reforms, is changing the conditions for direct investment and the destination of

"We are still encouraging foreign investment, but we are trying to divert It to bottlenecks and bigb-technology areas," says Mr Li Zongzhou, director general of the departmeot of international trade and economic affairs at China's foreign trade ministry. Mr Li cites infrastructure, eoergy and advanced manufacturing among the priority areas,

lenges not only for investors but also for the Chinese authorities, which must seek to develop new means of financing and guarantees for projects and try to resolve coocerns about the investment environment. It may also herprojects and a cooling in the rate of investment growth. frenctic. Statistics show that in the first quarter of the year.

1979-83 84 85 86 87 88 89 90 91 92 93 94 954

rose by 87 per cent to US\$27bn. underlining China's positioo as the dominant reclpient of direct investment among developing countries. This came on top of existing commitments of more than US\$390bn and actual investment of more than US\$135bo by the end of

surge, however, lay some spe-cial factors. in particular, investors were rushing to beat the April 1 elimination of tax and tariff breaks on imports of capital equipment. A longerterm picture (see chart above) shows a fall in the number of investment contracts alongside a continued rise in the value of utilised investment. The elimination of these

import incentives is part of the broader shift away from all-out

foreign investment contracts investment promotion policies. A parallel shift is the reduced interest in labour-intensive and small-scale projects thet dominated the early years of China's economic liberalisation. "They are not interested by \$10m projects any more," Mr Alfred Shum, executive partner for China at the accountants Ernst & Young.

> There are plenty of big projects on the table, many in the power and infrastructure sector targeted by the Chinese authorities. But the bigger the project, the bigger the risk, and many investors remain to be reassured about the terms and conditions for committing their funds. At the top of their list of anxieties are rates of return. management controls, guaran-· tees for loans and the ability to

Mr Li at the ministry of trade and foreign economic co-operation is confident that solutions will be found. Of particular significance, according to Chinese officials and their foreign investment counterparts, is the development of a Build Operate Transfer power plant project in the southwestern province of Guangxi. The project, which is now in the bidding stage, is touted as a potential model for future big projects and a vardstick for financing and rates of return.

The terms of such big projects are not the only concerns investors. The US-China business council cites "opaque and unpredictable" methods used to enact regulatory changes as a problem in business planning. The scaling back of investment incentives, It adds, is likely to dampen

Country

HK and Macan

1988

209,520

206.760

2,244 23,596

51,453 2,782

610 3,418 2,267 602 22,878

1989

207,759

203,690

15,479 28,427 35,634 8,414 402 1,268 2,848 460 1,695 38,871 339,257

investor enthusiasm and make marginal projects unfeasible. At Jetro, the Japanese trade and investment promotion. agency, there are misgivings about the pace of change, "We understand their intention to move to high technology but they are very much in a hurry," says one official. He believes the changes in tax and tariff incectives will represent

An additional worry is the growing influence of domestic companies in protecting their markets, "A lot of the state owned enterprises are bleeding red ink and they have pushed for limits on foreign presence." says one businessman. Profitable state enterprises have also exerted influence. Foreign insurance companies, for instance, bave seen glacial movement in market liberalisa-

Foreign direct Investment into China by country (US\$10.000)

1991

240.525

46,641 32,320

53,250 5,821 3,960 1,962 3,539 988

1.078 38,390 436,634

cation and learning has to take

place." says a representative in Beijing of the International

Monetary Fund. They need to continue expanding open mar-

ket operations and freelng

interest rates. Financial sector

reforms will be constrained

1992

750,707

105,050 51,105

70.983

11,948 8,903 3,833 4,493 5,824 56,074

1990

181,342

188,000

188,000 22,240 45,599 50,338 5,043 1,267 672 1,333 2,106 804 27,967

tion, partly because of pressure from state insurers seeking to limit inroads into their busi-"a big handicap" to foreign

Cintra

231,353

339,257

348,711 436,634

1,100,751

2,751,495

3,376,850

1987

Many, however, see positive steps, citing accelerated moves towards currency convertibility which will facilitate the repatriation of profits. And it is a rare voice in the business community that claims the difficulties of access or operation remains one of the few markets with huge growth pros-pects, so there is no lack of interest, says Mr Shum of Ernst & Young.

1994

2,017,481 1,968,544 339,104 249,080

207.529

117,961 72,283

N/A 68,884 18,204

21,805 263,518

1993

.727.475

206,312

132,410

49,004

23,318 22,051

14.141

1995 .

2,049,900 2,006,000

300,400 308,300 810,800

185,100 104,300 28,800 91,400

28,700 25,700 340,200 3,773,600

Over recent months, this interest has been focused increasingly on new markets within China, in terms of both products and location. Mr Victor Chu, chairman of the Hong Kong-based First Eastern Investment Group, argues that the consumer sector is poised for sustained and robust expansion as China's developing economy produces a broadening middle class. His group recently forged an agreement with Sinochem of China and several international chemicals groups with an eye on the plastics and by-products required

Foreign direct investment into China and Regions (US\$10,000)

Guangdong province % share

80.299

95,786 116,644

148,000

182,296

355,150

749,804

939,708

Shenzhen City

27,379 28,716

29,252 .38,994

44,879

98,900

125,046

back of rising expenditure on its garments, ties and related consumer products. At the same time, investor focus has shifted somewhat from the traditional magnet areas. Guangdong remains the largest recipient of foreign investment, supported by funds from Hong Kong, the largest source and the main conduit of investment into China. But the share of funds

flowing to the southern province has fallen from more than

for consumer products. Gold-

lion of Hong Kong has seen

rapid profits growth on the

40 per cent in 1991 to less than 30 per cent last year. Stronger growth has been seen io Shanghai, the Yangtze river delta, eastern coastal provinces such as Shandong and industrial areas around Beijing.

Shenzhen S.E.Z.

25.870

27,144

33,487

67,221

32,166

"By 2005, I believe that Hong Kong investors' attention will have shifted from Guangdong and the Pearl River Delta to Shanghai and the Yangtze Delta," says Mr Vincent Lo, chairman of the Shui On property and construction group. Mr Lo cites rising costs in Guangdong and Shanghai's traditional importance as a business base as the motors for

China's leaders would like investment to flow further afield, helping to develop the western and inland regions and to reduce disparities with the coast. So far, investors have been cautious, wary of the lack of infrastructure and logistical limitations. -There are opportunities, but it is certainly more difficult," says one French engineering executive. Given Beijing's more rigorous stance, it is an assessment that could be applied to China as a

Banking: by Tony Walker

Bad debts delay process of reform

Although making good progress, the sector is stymied by loans to the state enterprises

Mr Dal Xianglong, governor of the People's Bank of China, the central bank, says he is satisfied with progress towards reforming the country's antiquated fioancial system, but acknowledges there is still a

long way to go. Supervision of commercial banks is being sirengthened, oew banks are gradually being established to compete with existing institutions, open market operations are being introduced on an experimental basis and efforts are being made to deal with the non-performing loans of state enter-

"In 1994 we made a very important first step when we separated policy loans from establishing banks exclusively devoted to policy lending,"

"The secood step was the promulgation of a commercial banking law which forbids any individual from interfering with bank lending."

The latter measure was aimed at powerful local offi-cials who bullied banks into lending to unprofitable enterprises controlled by political cronies. Much of the bad debt problem is attributable to a combination of this practice and pressures on local officials

to preserve jobs. But although Mr Dai is sanguine about progress so far, the realities of reforming Chiwhat starker. A vast gulf sepa-

Industrial and Commercial Bank of China

rates the country's financial

system from those of most of

its trading partners, as China

makes the difficult transition

ecocomy to a market-based

in their infancy and Chinese banks lag well behind the min-

imum standards required of

international Institutions

Open market operations are

Agricultural Bank of China

Benk of China

system.

Settlements rules, Capital adequacy ratios are far from meeting BIS requirements, and pru-dential practices do not correspond with international oorms, although the Bank of China has begun to fall into At the heart of China's finan-

cial sector difficulties are the had debts of state enterprises. Mr Dai says that 20 per cent of total advances from China's "blg four" specialised banks are "problem" loans, with 2 per

cent of them irrecoverable.

Because China does not

apply international standards

to its debt classification, it is

the problem. Independent esti-

mates put the stock of doubtful

or non-performing loans at

20-30 per cent of the loans port-

folios of China's hig state-

owned banks. This could take

years to unravel.

1989

1990

5.4 5.0 6.2

1991

6.7

have to consider writing off a large portion of these debts and at the same time engage in a recapitalisation of the banks. China has set the year 2000 as a target for the "commercialisation" of its banks. The timetable will not prove easy, given the dimensions of the debt problem and the fact that China's specialised banks - Indus-trial and Commercial Bank, Agricultural Bank, Construction Bank and Bank of China -

tions. Between them, they

account for 80 per cent of bank-

Industrial and Commercial

Bank and Agricultural Bank

each have about 500,000

employees and 50,000 branches

and outlets. China will at some

point have to consider break-

ing up these banking dino-

The authorities

must develop the

markets without

speculative trading

China has long had difficulty

ensuring that its financial mar

ket development can keep pace

with its broader economic

growth and its insatiable demand for capital to develop

Hitherto, much of the focus

has been on the nascent stock

markets in Shanghai and Shen-

zhen, but now the country is

slowly starting to develop debt

and money markets in a way that might eventually make

them more efficient and reduce

its continuing reliance on for-

in separate developmenta

this year, it has ended the

interest rate cap on trading in its national interbank money.

market, launched limited open

market operations by its cen

tral bank in the treasury bill

market, and again started to

issue longer term government

eign borrowing.

the country's infrastructure.

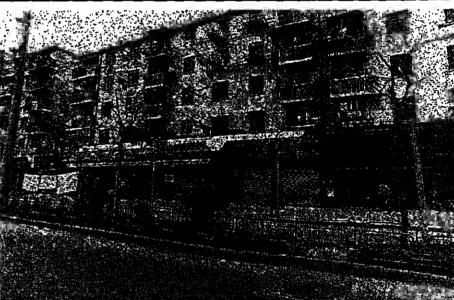
encouraging

ing busine

without further interest rate liberalisation." The IMF representative says that among the most critical measures to underpin the sucare buce and unwieldly institucess of open market operations is an acceleration of accounting reform, including the com-State commercial banks' low and declining capital-asset ratios (in %) pletion of a book entry system 1992 1993 1994 for the trading of government securities. There is also a need 4.9 4.0 4.5 4.5 3.0 5.2 3.3 3.6 4.4 2.8 for greater transparency in the application of government reg-

Standardisation of settlement rules for the infant foreign exchange market is also a priority. China launched a pilot scheme earlier this year in four locations - Shanghal. Dalian, Jiangsu province and plans to extend this nationally by the end of the year, according to Mr Dat.

All this is aimed at preparing the ground for China's move towards currency convertibil-



A branch of the industrial and Commercial bank, a possible break-up candidate

19951

ity on the current account in time for an IMF/World Bank meeting in Hong Kong in 1997. Mr Dai indicates that China would like to be in compliance with the IMF's Article 8 on currency convertibility by the end of this year so as to be in good time for the joint session. Com-pliance would also help it to

How China's budget deficit is financed (Yn bn)

tion. Although its task is incomplete, China has worked hard at reform since it began opening to the outsids world in 1978. As a recent World Bank study concludes: "Considerable progress has already been cial systems of middle-income made in setting the foundation

trade in services requirements for a modern financial system of the World Trade Organisa. China's financial system today bears little resemblance to its predecessor before reforms

began in 1978. "The monobank system of the pre-1978 era has metamorphosed into a diverse set of institutions akin to the finan-

At some point the state will under Bank for international ■ Debt and money markets: by Peter Montagnon Solving the capital conundrum

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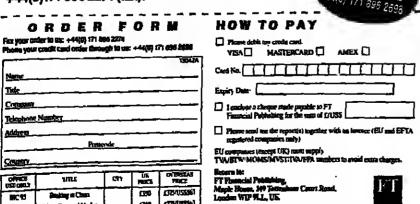
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FINANCIAL TIMES

China's Financial Markets

- * Regulatory framework
- * The Shanghai and Shenzhen stock exchanges
- * The bond market
- * The commodities market

- * The role of Hong Kong

bonds to the public. Western bankers say the immediate impact of these measures is limited because much of China's financial system still relies on controlled allocation of credit at regulated rates of interest. Compared with a modern market economy, this leads to some extraordinary anomalies, such as the fact that rates on government bonds, o benchmark low in most countries, are

The role of the interbank money market and treasury bill market is marginal at present, but, taken together, this year's measures mark a stride forward in putting in place the outline of a modern system that will eventually allow the market to set interest rates

higher than medlum-term bank

Foreign loans Treasury bonds Control Bank credit 30.9 15.2 102.3 152.0 0 153.8 117.5 Total foreign debt outstanding (Sbn)

1994

1993

84.2 10.7 and correct such anomalies. Economists expect China to issue about Yn195bn in domestic debt securities this year, up more than Yn43bn over last

1993

One problem is that the market for debt securities is dominated by retail investors

year, in recent years, the gov-

erument has not issued bonds

with a maturity longer than

three years. This means a con-

tinual bunching of repayment deadlines and a maturity profile that is too short, says Mr Liu Zhongli, finance minister. The government thus decided this year to try longer-dated five- and 10-year issues

But an issue of five-year bonds in May sold slowly despite a one percentage point premium over equivalent bank deposits. Bankers say the lack of interest reflects the withdrawal in April of inflationlinked supplementary interest

and bank deposits, as well as the lower absolute rate of interest since monetary policy was eased at the start of May.

1995

Against that background, the launch of a 10-year issue totalling Yo12bn in June looks bold, though it is too early to say how it will be received. Western bankers say one problem is that the market for debt securities remains dominated by retail investors.

China still does not have an

institutional fund management, pension and insurance industry to help create a liquid secondary market in debt securitles and market-determined henchmark interest rates. Some bankers also say that the continued closure of the futures market in government bonds is a handicap for professional investors trying to manage risk. There is no chance of this market re-opening in 1996, says Mr Zhou Daojiong, chairman of the Securities Regula-

tory Commission. China closed that market after two large securities companies ran up large losses in speculative trading last year. The conundrum for the authortties is to find a way of providing institutional investors with

0 195.3 require to develop their busiss without being continually

19961

N/A

blown off course by private speculation in thin experimental markets. Mr Joe Zhang, economist at W. I. Carr in Hong Kong, says China "desperately needs" a deep domestic capital market to finance its infrastructure

needs but he reckons it will take at least five years to create one. Meanwhile, China must rely on foreign borrowing to supplement the heavy inflows of foreign direct investment capital it has been enjoying in recent years.

According to the People's

Bank, China's foreign debt rose to \$107bn last year from \$98.4bn at the end of 1994. However, although the absolute total is the largest in Asia, the country's debt service ratio is low at only around 7.25 per cent, which is bettered among Asian borrowers only by Mal-

Mr Dai Xianglong, governor of the People's Bank of China,

adds that the debt total has to be compared with \$140bn of disbursed foreign direct investment. Only a small propertion of the debt is short term, while China has only about \$6bn in foreign portfolio investment outstanding so it does not rely

on volatile short-term flows. Moreover, official foreign exchange reserves and cur-rency boldings abroad by banks add up to \$122bn, which is more than the foreign debt outstanding, be adds.

Foreign bankers say that China is careful in controlling the flow of new borrowing in the international capital markets. The Ministry of Finance has been active in the international bond markets this year. even raising one issue of 100year boods in New York io March. But most of the borrowing emphasis is on infrastructure-related project finance.

China's main coocern in such deals is to limit ceotral government financial guarantees, forcing banks to take more of the risk directly.

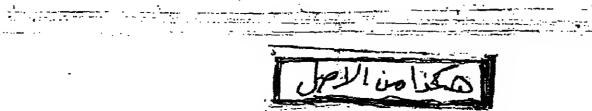
Some tough battles are likely to be fought in this area, but, with China seen as a desirable borrower, banks that want to lend may have to make concesslons, especially since leading Western export credit agencies are showing signs of relaxing their hitherto strict insistence on sovereign guarantees.

α 60



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The government

projects via foreign

about funding

capital markets

include further accelerated

development of all facets of

figure prominently to the

Mr Gan estimates that

investment in infrastructure

government's plans

infrastructore, including roads.

Mr Gan Slyu, vice chairman of the state planning commission, could not be accused of Understating China's challenges in modernising its infrastructure to underp!n improving living standards for a population that will reach 1.3hn by 2000 - the end of the

current ninth five-year plan. He makes it clear that giving sistance to agriculture and taking steps towards reducing development disparities between China's wealthier coastal areas and its impoverished hinterland will be priorities over the next five

years. "Agriculture is still China's most important industry," be says. "Feeding the population is our primary task." But other promities also

weigh heavily with economic planners in Beijing. These

railways, ports. telecommunications, airports, the power sector and water conservancy. Basic industries such as petrochemicals also

alone will amount to around \$300bn over the nest five years. remains ambivalent Requirements for foreign funds should reach about \$10bn

INVESTMENT IN INFRASTRUCTURE: by Tony Walker

per cent of the total The more traditional sources of funding - what the vice charman calls the "stock of soft leans" - are set in decrease. The World Bank and other international institutions are likely to apply stiffer qualifications for assistance to Chma because its rapid remonie development is

providing it with resources to

raise funds in International

capital markets. Mr Gan

annually, or approximately 15

China will be obliged to make greater use of commercial burrowing. It also plans to involve foreign investors more directly in infrastructure development through joint ventures and equity arrangements, including Build Operate Transfer schemes. According to Mr Gan,

providing sovereign guarantees for infrastructure projects since it does not wish to add to its foreign debt hurden. He believes that, despite this, foreign investors, especially these in the power sector, should find conditions

attractive. "Infrastructure is a

however, it will resist

manufacturing," he says. But Western officials think

'hard' credit creaks open

this may be a more optimistic view of the attractions of infrastructure investment that is justified. "Shifting foreign investment to infrastructure presents difficulties in comparison with export-oriented industries." says one. There is often a long payback period and concerns about enforceability of contracts, access to foreign exchange and a cumbersome approval process are all working against foreign participation in infrastructure

particularly in the road, rail,

■ Telecommunications: by John Ridding

The Economist Intelligence Unit (EIU) says in a recent

Expenditure in 9	th FYP
Sector	\$bis
Power	60 - 100
Telecommunications	60
Railwaya	40 - 45
Oil/ges development	35 - 45
Refineries capacity	35 - 40
Roads	30 - 40
Cost	20 - 25
Ports ·	10
Airports -	5 .
Total	295 - 37

Opportunities, that China's ask of pulling in around \$10bn in foreign capital every year will be considerable".

"Chinese attitudes to foreign capital are ambiguous, to say the least. The individual ministries, eager for the funds they need for speedy development, will often velcome substantial foreign funds and might be quite Sexible in Spancial arrangements. But the central government is much more cautious and clearly would still like to see China avoid all but soft credit," the report says. "This tension is becoming

even more visible. In March 1995, in the wake of the Mexican peso crisis, China announced that borrowing from international commercial banks would be severely curtailed. However, this must be set against the increasing short-fall in investment owing to lack of funding, which has led to most areas falling behind schedule. As a result, more areas will be opened to foreign investment."

Indeed, Mr Gan comments indicate growing recognition at the centre of China's need to tap international capital merkets and also to improve terms for investment in infrastructure if the country is to meet ambitious targets. But progress will continue to be relatively slow. China likes to experiment before opening its doors wider.

■ Road and rail transport: by Peter Montagnon

Long journey to efficiency

Epgrading road and rail transport is a erucial challenge for China. Better communications are necessary not only to boost economic efficiency but also to open up the poorer provinces of China's hinterland and belp them to catch up in terms of living standards

Nearly a quarter of the \$295hn to \$370hn in infrastructure spending projected under the minth five-year plan will be invested in road and rail, with a further \$10bn destined for port development, according to Western diviouance estimates.

Partly because of the localised concentration of coal deposits in the northwest of the country. China's transport requirements are large. The volume of freight moved on China's roads is expected to rise 1.92 times by the year 2000 and that of people 1.72 times. Mr Huang says.

Under the minth plan, construction of new roads will rise from 92,000km under the eighth plan to around 100,000km, while the rate of construction of new motorways will quadruple to some 1.800km, the minister adds. This is part of a longer term 30-year plan launched in 1991 to build 35.000km of trunk roads in a network of high-grade roads linking main cities.

China must also invest heavily in maintaining and repairing its existing overused network. This means that while estimates for spending on new roads range around the \$35bn to \$40bo mark, the ministry's total road budget is scheduled to be

Meeting the cost represents a big problem, the minister admits. The ministry will generate revenue from taxes on motorists and from local government contributions, it will also transfer managerial authority on some existing highways to attract capital. There will be a need for foreign capital cootributions, amounting to some 10 per cent of speuding on new

Some of the funds will be provided by official institutions such as the World Bank and Asian Development Bank, but China is also seeking to expand its recourse to the build-operate-transfer (BOT) formula, which has only been used

The BOT experience has not been an entirely happy one. In particular, the 123km Sbenzheo-Guangzhou expressway linking Hong Kong to the capital of ministry to commit supplies. Under the Guangdong province has proved a disapninth plan, the ministry plans to build a Guangdong province has proved a disap-pointment both to China and to Hopewell



Holdings, the Hong Kong company that constructed it. Among the problems were cosl-overruns, delays in construction, difficulty in securing local construction permits, and a shortfall of toll revenues after

Mr Huang says one of the problems with the project was that it was negotiated at local level. For BOT to develop, central government will have tu take greater control. The project assumed that Hopewell would be able to develop real estate along the route, which added to its costs, "We are not in favour of combining road construction with real estate development." Mr Huang says.

By contrast, Mr Han Zhubin, minister of railways, is less coy about using real estate to lure outside investors into his industry. In part, this reflects the fact that, with large operating as well as capital cosl, railways are a much less attrac-tive proposition. "The investment tends to be large, the return rate is pretty low and cycle is long," he says.

During the eighth plan, Mr Han says about Yni58bn was spent on new rolling stock and track, including the prestigious 2.536km line from Beijing to Shenzhen. But China's network, on which the

remains insufficient to meet demand. Electrification has been slower than expected because of the reluctance of the power further \$100km of new track to bring the operating track total to 86,000km

Total investment plans amount to some Yn300hn, Mr Han says. Part of the money will come from a small surcharge on freight transport, which the ministry ants to increase, Part will come from hank loans and part from loans from the World Bank, Asian Development Bank and Japan's OECF development agency. A limited amount of foreign capital will come from other sources.

The ministry has floated shares in the Guangzhou-Shenzhen railway, and there may be a possibility of involving outside tors in some local lines. Last year, Otoku Express, a Japanese transport company formed a joint venture with a Chinese partner lo operate a sea-rail transport system that will help open up the Chinese interior to Japanese trade.

But a more fruitful use of foreign capital has been in railway equipment manufac-ture. China already has joint ventures with ABB and SKF and is discussing a venture with Bombardier of Canada. Still not officially approved, Mr Han

adds, is the construction of China's first high-speed line from Beijing to Shanghai, According to a World Bank study, the t.310km line would cut the journey time ing at a speed of 250kph. But the total cost could be as much as \$10bn and a lot of the equipment would need to be imported. With other pressing priorities it looks as though the high-speed train will face con-

Engaged in expansion

Cellers to the southern Chinese city of Guangzhou have had to add another digit to their dialling this month. The change, which follows a similar move in Beijing and Shanghai, is just one sign of Chine the world's fastest growing telecoms market.

China's five-year plan for the period to 2000 aims to add more than 64m new subscribers to the present total of about 41m, excluding mobile customers. Exchange capacity

will double to 170m lines. As part of the plans, China will add e further 300,000km to the optical fibre network, which will enable the comple tion of trunk lines and the linking of provincial capitals and prefectures.

Such a rapid increase equivalent to an annual addi-tion of almost half of the UK's lines - provides significant opportunities for foreign tele-coms groups, particularly in the supply of equipment. But it also raises the questions of how the expansion will be financed, what will be the lim-Its to international participation, and how the industry will develop in terms of competition and regulation.

The most immediate challeage lies in the funding required, estimated by the minister of posts and telecommunications, Mr Wu Jichuan, at a cool RMB100bn per annum. Part of the fonding will come from preferential policies, reflecting the sector's priority status. The ministry of posts and telecommunications (MPT) can collect installation fees for telephones,

e Mariana Nakara Kilometre (1000)

which are equivalent to about RMB3,000 per unit and which can be used only for the construction of networks. Given the ministry's plans for new subscribers, about RMB30hn should be raised each year. The state has also granted

the MPT a high depreciation rate for its assets, which total about RMB260tm. Mr Wu sees a further RMB30bn coming from this source. Much of the gap will be bridged by domestic and international loans. The physical construction of

the network is no less of e challenge. However, foreign observers believe the targets are feasible. "At the rate they are going at the moment, I think they will achieve them," says Mr John Butler, sales

director of GPT China. GPT is one of several inter-national telecoms equipment groups that are competing for the Chinese market, often through joint ventures. But it is not a case of easy pickings. Margins are tight, and rivalry

Gaining a presence in the market is equally difficult for foreign operators. Although a few bave ongoing projects, notably Hongkong Telecom and Singapore Telecom, progress is slow and the arm involvement is restricted.

are not ripe," says Mr Wu, referring to the prospects for foreign participation as telecoms operators. He cites market distortions, such as the low construction fees for networks and the low tariff structure for calls, as obstacles to foreign involvement. Those in the industry point instead to the political sensitivity of such a strategic sector.

There are some possible ways around restrictions. Recent egreements between one foreign operator and its local mobile telecoms partners in Hubei province bave included some participation in the management of the network through a joint venture with an equipment supplier. But the prospect of significant.

liberalisation appears remote. Domestic competition is closer to hand. But here, too, the process is slow. Valled services, such as paging, have been liberalised. upting a flurry of new providers. But for basic teleco services, development bas been less striking. In particutar, the going has proved tough for China United Telecommunications (Unicom), which was launched with great fanfare in 1994 as the country's second operator.

"As happened in other coun-

tries, the early stage of deregulation is quite painful. There is quite a lot of friction and the leading players want to maintain their monopoly position," says Mr Qin Xiao, president of Citic, the Chinese conglomerate that is one of Unicom's shareholders

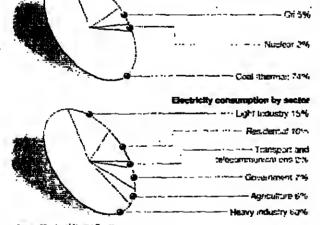
Competition is constrained by the fact that Unicom relies on the MPT for its exchanges and connections. It is also limited by the MPT's perception of its rival's role. "Both China Telecom (MPT) and Unicom are state-owned enterprises," says Mr Wu. "So they have larger areas to co-operate in than to compete," he adds. playing down the prospect of an independent regulator in

This is not to dismiss the benefits of Unicom's presence. They lit something of a fire under the status quo and MPT has responded with improved services and strategies," says one industry executive. But for the time being at least, government policy is likely to mean the pace of deregulation trails the speed of expansion.

■ Power: by Tony Walker

Transmission impossible?

Energy sources and consumption Sources of electric power



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Mr Shi Dazben, mioister of electric power, has one of the tougher jobs among China's infrastructure ministers. With the economy continuing to gallop along at an average growth rate of about ! per cent, his task is to match the frenetic pace of development with new

fact, newly installed capacity in this present super-charged growth phase is barely keeping pace with existing demand let alone bridging the gap. Mr Shi expects little change in the much five-year plan period (1996-2000), during which investment is planned of Yns90bn(\$65bn) - 20 per cent coming from foreign sources, including "soft loans" and

power generating capacity.

commercial money. China plans to add 15.000MW a year to the present total of around 200,000MW, reaching 300,000MW by 2000. This would involve trobling capacity between 1987-2000, no small achievement in itself.

Power shortages, especially in the energy-starved southern areas where growth is most rapid, continue to be a drag on the economy. According to some estimates, insufficient supplies shave 1-2 percentage points from GDP growth.

Mr Shi puts China's massive challenge in providing adequate power in perspective by making comparisons with the developed wurth. He says that even if China met its 15,000MW target for the next five years this would still amount to a very small per capita figure" each year - 100 watts for each individual among the country's

Libn people. While Chira ranks second or third in the world in terms of installed capacity with 217,000MW (there is debate about whether it has outstripped Japan), it is only 80th in terms of per capita consumption. If it were to reach the present US level of installed

capacity per bead it would need 2.6mMW of generating canacity, or five to six times its target for 2010 of 500,000

ous problem with the gap between demand and supply." says Mr Shi. The development of the power sector has lagged that of the rate of GDP growth in recent years."

A western embassy study of the power sector notes that China has fallen short of its own targets for 15,000-17,000MW of new capacity each year The study also pointed out that because the country's power plants have utilisation rates higher than world ston-dards, plant and equipment degrade prematurely.

Inevitably, the study said, China is under pressure not only in develop capacity, but also to replace outdated and says that an important task in the next five years will be to upgrade existing power plants of less than 200MW in order to increase efficiencies. Meanwhile, the Ministry of Electric Power bas banned construc-

200MW capacity. According to the ministry's own estimates, 15-30 per cent of the demand for electricity cannot be satisfied in the present phase. Peregrine, the Hong Kung-based investment bank, says in a survey of China's power sector that by 2000 "the electricity shortfall will at best be around 11 per cent of electricity demand, despite the Chinese Fovernment's aggres-

tion of new plants of less than

sive development plan". This raises the question of why China has appeared so reluctant to facilitate foreign investment in power utilities under Build Operate Transfer (BOT) arrangements as a means of accelerating develop

Continued on page 6

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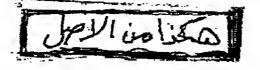
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Professional and business services: by Richard Tomlinson

Fough market for 'intangibles'

Despite growing demand for their advice, consultants still meet cultural barriers

In August 1989, just two months after the Tiananmen Square crackdown, Mr Peter Batey asked permission from the Chinese anthorities to start a consultancy firm in Beijing. "They were astounded." he recalls. "At that time, they were used to foreigners asking to close down their husinesses. not open new ones.

Seven years later, Mr Batey feels rather less lonely. The British Chamber of Commerce in Beijing, which he heads, lists 20 member companies, offering legal, accounting and business consultancy services. They include specialised firms with names such as East West intellectual Property, as well as giants such as Price Waterhouse and Clifford Chance.

It is the same story at the American Chamber of Commerce, whose membership covers all the leading companies in the professional sector. According to Mr Batey, the latest US firms to pile into China

are investment and market strategy consultants.

Before such companies can provide expert advice on China, they need to take their own crash course in mainland practices. "This isn't a society where you can rely entirely on the rule of law," says Mr Batey, with some understatement. "The best way to protect yourself is to build up a web of relations with the right people in government."

The gulf between rules and reality is especially troubling for overseas law firms in China. "I would argue that China has moved from having too little law and an uncertain situation to too much law and the same uncertainty." says Mr Edward Epstein, who runs the China group at Clifford Chance.

cites the recent decision by Reijing to remove certain tax exemptions on the import of raw material and equipment by foreign investors. Clifford Chance had "an incredible rush" completing the paperwork for joint venture deals before the April 1 deadline, he

says.
"We were in the middle of

this process when the ministry of foreign trade issued an internal notice saying it would reexamins every one of those deals and revoke local

approval if the contract were deemed 'improper'. It did not matter that under another regulation joint ventures with a start-up capital of less than \$30m were supposed only to need local approval." For international law firms

such as Clifford Chance, Baker and McKenzie and Gide, Loyrette, Mouel, getting a footbold in China is hard. Since 1992, China's ministry of justice has anthorised 57 overseas practices to open offices on the mainland, but they are not allowed to handle domestic business, or form joint ventures with local partners.

The situation for accountancy firms is less restrictive. They can set up joint ventures, and although most of their China business still comes from overseas clients, domestic demand for their services is

At Price Waterbouse, the number of employees resident in China has swollen from fewer than 10 in 1992 to more than 600 today. Of these, more

mostly overseas Chinese from Malaysia, Singapore, Rong Kong and Taiwan.

"I would think that in the next five years, assuming continuing economic growth in China, we would still be in the investment phase," says Mr Richard Gledhill, a senior member of PW's corporate finance team in London who visits China regularly. "But we would like the current invest-

ments to begin bearing fruit."
As proof that the prospects are good, Mr Gledhill points to PW's impressive multinational chent list in China, the listings service it performs for domes-tic giants such as CITIC fic, and its work with the World Bank and the People's Bank of China on drafting new financial rules.

The problem for PW, like fts competitors, is that although China business is expanding, so are its overbeads. entiy, overall stewardship of Price Waterbouse Dahna, PW's joint venture vehicle in China, was switched from the Hong Kong partnership to the international parent company. Mr Patrick Paul, the senior Hong Kong partner, was

help China solve fts bousing

Others have taken a similar

view. New World Development

is building low-rise apartments

to house an estimated 60,000

residents in Wuhan, in central

China. Some developers from

Japan and the US are also eye-

ing the public bousing market.

Stanley sees some attractions

in these projects. "Often they have a guarantee that the local

Mr Churchouse at Morgan

problem," be adds.

than 100 are expatriates, reported as saying: "It was difficult for the international Big. Six firms to provide a subsidy of several millions of dollars without taking control."

The main burden in China. not only for accountancy firms hat throughout the professional sector, is the cost of maintaining a large expatriate workforce. "Localisation" is the hozzword, mesning training local employees to fill senior positions, but this is less easy than it sounds.

We find that after about three years, our Chinese staff hit a hrick wall and just stop getting better," says one western executive at a professional company in Beijing. He blames the Chinese education system, which he says is better at turn-ing out first-class scientists than graduates who can perform complex business tasks.

A similar culture gap may also inhibit the expansion of domestic demand for international business services, in spite of the inroads made by the accountancy firms. "The Chinese are only just beginning to wake up to the idea of consulting fees," says Mr Batey. "They don't like the idea of paying for intangibles."

authorities will pay 15 per cent

above cost," he says, referring

to projects under the low-cost

bousing schemes. "So there is

But there are other potential

pitfells, including the risks

relating to the guarantees of

local authorities and the abil-

ity to complete the projects

swiftly to achieve an adequate

rate of return. Here, in marked

contrast with idle office sites.

speed is of the essence.

no real development risk."



■ Securities regulation: by Sophie Roell

The move towards a system of tighter supervision could raise as many fears as it calms

China Securitles Regulatory Commission (CSRC) appears to be making stow but steady progress towards centralising control of China's disparate securities markets.

This year, the sgency succeeded in wresting control over the B-share market which trades foreign currency denominated shares reserved for foreign investors - from muntcipal regulators in Shanghai and Shenzen. It has now reptaced the tocally issued regulations that have governed the market in the past with a new set of imple-

menting rules. The CSRC has already established its authority over the 25 or so securities trading centres outside the main stock markets, which mainty deal in bonds and which were, until last year, also controlled by

the total regulators.
Some loopholes remain, but China's regulators hope that these will be closed as quickly as possible by the passing of a formal securities law.

The price being paid for this process of "standardisation" as CSRC officials call it - is a stow-down in market expanslon. This year, there has been only one new B-share company approved for listing.

Mr Lt Jiange, the CSRC's vice chairman, however, protests that: "The stock market the market."

Few analysts deny that some

regulatory consolidating is necessary. Last year, one of the country's premier brokerages lost virtually its entire capital after a punt on the hond futures market went badly wrong. The company had gone well beyond authorised trading limits and had been doing so for some time without being punished. The CSRC, while technically

in charge of futures markets, had avoided interference for fear of offending the ministry

of finance, which typically considers any bond market its own domain. Municipal regulators in Shangbai say that while they had noticed abnormal activity, their "power of investigation and supervision was limited" and they were "not qualified" to check what was happening.

Such disagreement over who is in charge of markets is unlikely to disappear. Indeed, discussions about the role of other government departments in regulating the securities markets is one of the main reasons the securities law.

after numerous drafts, has still not been finalised. The difference is that the CSRC now has the upper hand with nominal responsibility for most securities instruments and markets across the country. In March, it delegated anthority to tocal government regulators, who will act as

CSRC branches in day-to-day

supervision of the markets although staff will continue to be appointed by local govern-For foreign brokers in China, who are limited to dealing in shares, the biggest regu-latory beadache is inadequate disclosure. Again and again, annual results have come out

expectations as companies have proved reluctant to tell visiting analysts the bad news. Since the CSRC took charge and issued new B-share regulations, disclosure standards have been raised - at least on

dramatically below brokers'

The Shanghai Stock Exchange also' took the unprecedented step of susof six companies for a period of two days after they posted particularly poor annual results in April.

Although the companies had not been violating any specific disclosure standards, It was the first signal that the authorities were serious about making companies accountable to shareholders. However, while foreign bro-

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kers welcome the CSRC's tougher stance, they are worried where the trend towards centralisation might lead. The precarious position of Chinese

securities markets as "experiments" in an economy still subject to central government ptanning objectives; has already led to criticisms of

over-interference.
One key problem is the Chinese government's ideological commitment to state retention of a controlling stake in companies that are listed. In practice, this means investors cannot exert effective control over corporate performance. because they do not have the power to oust incompetent management.

Foreign luvestment bankers have also been astonished by China's Insistence that the government, and not investors, should select companies for listing.

The government's role in the selection process has meant that cash-starved state-owned enterprises - chosen as much for policy as for commercial reasons - dominate the exchanges.

As the regulator, the main challenge facing the CSRC is to ensure that in future its own actions do not exacerbate market participants' comptaints about government interference

In July 1994, after a prolonged fall in A-share marketed, reserved for local investors, the CSRC tried to lift prices by announcing a market support package. The market jumped 122 per cent in less than a week on hearing the news. A World Bank report condemned .. the move as unwarranted market manipulation of a major nature".

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Mr Li blames the action on the agency's "lack of experience", and says the CSRC is aware that government interference in the market will give investors "the wrong signal". He adds that the CSRC now recognises that its "major responsibility is to make the rules, and to ensure that they are observed", and that "volatility of the market is not that important".

It is now a question of con-vincing market participants. Stock market officials say fears of a heavy-handed approach by the government continue to undermine market confidence.

Real estate: by John Ridding Developers find safety in houses

A commercial property slump means companies are investing more in public housing

Two years ago, construction sites in Shanghai were working 24 hours a day, says Mr Sam Crispin, chief representative for Brooke Hillier Parker in the coastal city. "Nowadays. many are quiet, even in the day time.

The explanation is evident. Clusters of new and semi-completed huildings across the horizon point to increasing oversupply. Developers, caught between rising construction costs and falling rents, have decided to put some of their

Shanghal is the most extreme case, but it is not lesser extent in Beijing, the prime office and housing sectors are confronted with a downturn after years of heady growth. Developers are left wondering when the market will turn and whether to diversify into new areas, such as public housing.
While it is difficult to gener-

alise about cities and market segments, the slump is clear. Grade A office space in Shanghai has fallen from around US\$75 per square metre 18 months ago to about US\$60 today, in Beijing, the decline has been less marked, but space can be rented for about 10 per cent less than it could be at the beginning of 1995.

Similar trends can be seen in residential prices.

Top-end real estate has been one of the few sectors spared from the reversal. "We have seen something of a quality shakedown, leaving the pre-mium properties relatively unscathed," says one agent,

The main force behind the price falls is the prospect of a gint. Although demand is rising, as local husinesses expand and foreign companies increase their staff presence in China, it lags far behind supply. "By the year 2000 the amount of office space in Shanghai will be in the region of 50m a square feet. 10 times the 1994 figure," says Mr Crispin at BHP.

Mr Peter Churchouse, managing director of Morgan Stanley Asia, argues that while Sbanghai, with its emerging financial centre of Pudone, is set to emerge as a husiness alone. In Guangzhou, and in a powerhouse, it does not pres-

ent an easy ride. "We are looking at a very sharp decline as the new supply arrives," says Mr Churchouse. "Capital values could come down by 40 to 60 per cent in Shanghai, with a corresponding fall in rental values."

For the Chinese authorities. the fact that market conditions could have dampened investor ardour is good news. Mr Dai Xianglong, governor of China'a central bank, says that official policy is to divert the direction of inward investment "from the overbeated real estate sector to more important infrastructure and high-tech areas". Within the real estate market.

he adds.

priority is being placed on the supply of affordable bousing so as to improve living standards

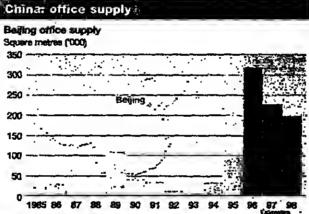
ern cities.

in China's overcrowded cities. in pursuit of this aim, local and central government have imposed restrictions on the construction of luxury apartments and office space. There has been a marked slowdown in the award of new permits. with much tighter management in Beijing and north east-

At the same time, plans have been launched to accelerate the construction of low-cost housing. The so-called Comfort Housing Project, launched early last year, has set an ambitious goal of building 25m new apartments by the end of the decade. The construction ministry is also weighing plans to convert unused commercial

property into residential use Faced with the shift in government policy and with the situation in the market, devel opers are now looking to public housing. The Shui On group, one of Hong Kong's larges property concerns, announced in April that it would invest about US\$500m over the next 10 years in building cheap es in Shanghai. The project, the biggest of its kind in the city, will provide housing

for around 80,000. "Property development com ies like my own have realised that they cannot go on simply concentrating on the construction of hotels office btocks, and shopping malls." says Mr Vincent Lo, chairman of Shui On. "Our construction industry is ideally equipped to



Shanghai office supply Square metres ('000) Shanghei

Guangzhou office supply Square metres (1000) BOG . 88 89 90 91 92 93 94 95 96

Laibin plant to be power blueprint

Continued from page 5

ment. Mr Shi makes it clear that in spite of the dire need for additional capacity, China will continue to proceed slowly in absorbing direct foreign he says, seek to lay down its own formula for BOT in line with local conditions.

China sees the Laibin project in the southern Guangxi region as critical to plans for greater foreign involvement and as a model for BOT developments. It will be the first big power plant to he wholly owned by foreigners, and bids have been lodged by six consortia representing powerful international companies involved in the supply of technology and equipment.

The consortia will be hoping that success in securing agree ment for the relatively small (700MW) project will provide a platform for other successful bids. But negotiations are certain to be slow and difficult, and it may take several years for Laibin to come into opera-

Complex discussions will principally revolve around issues such as the tariff level and rates of return on investment, foreign exchange guarantees and financing. The process is likely to provide a bonanza for legal and financial consultants.

China's other power-sector reoccupation in the present five-year plan is the continued development of its transmission capabilities. Central to its plans to improve efficiencies will be the establishment of a national grid. A National Grid Construction company is being set up to manage the completion of a Chinese grid by 2009 the year when the giant Three Gorges hydro-power project is scheduled to be in production.

One of the company's main tasks will be to integrate out put from the Three Gorges into the national network. Power from the massive dam on the Yangtze will account for about 4 per cent of China's capacity. The power sector is set for continuing and significant changes during the next 15



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# THE R&D SCOREBOARD

# Warning sign flashes

In a reversal of recent trends, this year's scoreboard reveals that UK companies' investment in R&D has slowed in comparison with that of their overseas competitors, writes Clive Cookson

From the UK viewpoint, the sixth annual R&D Scoreboard shows a disappointing reversal of the trend set over the previ-ous five years, during which British companies had increased research and devel-opment spending more quickly than their overseas competi-

tors. The UK scoreboard, published today by the Department of Trade and Industry, shows that British companies spent 4 per cent more on R&D in 1995 than in 1994, while their sales rose by 9 per cent

and profits by 18 per cent.
The international scoreboard reveals a 5 per cent increase in R&D spending (and 7 per cent sales growth) by the world's top 300 companies.

As Ian Taylor, UK minister for science and technology, points out, "a warning signal is flashing because, in aggregate, the UK's companies have been consiatently investing at a lower intensity than their major competitors since the Scoreboard was first published in 1991".

This large gap in "R&D intensity" - the ratio of R&D spending to sales - had been growing gradually narrower

until last year's reverse. In 1995, the world's top 300 companies devoted some 4.4 per cent of sales to R&D - compared to an average of 25 per cent for the 18 UK companies included in this group and 1.7 per cent for all companies in

the UK scoreboard. The raison d'etre of the score board is the deep-seated belief by industrial policy-makers that the UK's competitiveness would improve if its companies invested more in R&D.

Richard Freeman, chief economist of ICI, expresses this view in his introduction to this year's scoreboard: "The importance of technological activity and innovation for the UK's competitiveness and capacity to create wealth cannot be overstressed. Nor can there be any doubt that unless UK companies increase their R&D investments faster than their overseas competitors, the UK will lose competitiveness in world markets over the longer

term," he says.
"Although R&D is just one input to the innovation procesa," Mr Taylor says, "in many sectors R&D is a key component - a necessary but not sufficient ingredient in companies' innovation strat-

The DTI wants companies and their investors to use the scoreboard as a benchmark to compare their R&D investment with competitors. If they are being outspent by competitors with a similar mixture of activitles and business goals, "they should be able to prove to their investors that they are more effective at exploiting their R&D than their competitors," Mr Taylor says. Valid proof does not include

vague claims that your scientists and engineers are better than your competitors', he adds. Nor is it valid for global companies based in the UK to claim that lower R&D costs particularly British researchers' salaries - justify lower spending. Chris Floyd, head of the technology and innovation management practice at Arthur D Little, the international consultancy, says: "Variations in R&D costs from country to country are small; any

cost advantages in the UK are Mr Floyd shares the feeling among UK-based technology managers that the scoreboard is a worthwhile exercise but he warns that benchmarking by

There are still discrepancies in the way companies add up their R&D spending

comparing R&D intensities may not be as straightforward

as the DTI suggests.

Despite continuing efforts to impose international accounting standards, there are still discrepancies in the way companies add up their R&D spending. For example, some international groups follow the US practice of including tooling and engineering costs for new products - which do not count as R&D in the UK.

While Company Reporting, the Edinhurgh consultancy that prepares the scoreboard for the DTL adjusts the data to exclude these engineering costs as far as possible, it concedes that there may still be overstatement of overseas R&D figures in relation to the UK. However, such discrepancies in accounting cannot explain fully the huge variation in rela-

tive performance of different UK industrial sectors. Pharmaceuticals is the only significant sector in which UK companies match their interpational competitors in R&D intensity, with spending at just over 12 per cent of sales. It also happens to be the only science

based sector in which the UK

still has a clutch of world-class The drug companies account for one third of corporate R&D spending in the UK, and Glaxo Wellcome, the giant formed last year wheo Glaxo took over Wellcome, is responsible for 13 per cent alsoe. When the last scoreboard was published a year ago, there was widespread apprehension that GW would cut the two companies' comhined £1.2bn R&D budget, as part of the post-merger rationalisation process, hitting the

overall UK performance. In the event, GW bas cut R&D staff and is closing Wellcome's former laboratories in Beckenham, Kent. But it is holding overall spending steady, as the group is investing beavily in robotics and actomation in-house and is spending more on external collaborations with universities

and biotechnology companies. In other important sectors, such as engineering, electronlcs and chemicals, most UK companies invest far less in R&D than international com-

petitors. In engineering, for example, the UK average is 2 per cent of sales - half the international level.

· However, as Mr Taylor points out, there are isolated examples of successful "world class" companies, large and small, across the UK scoreboard, which invest in R&D at

comparable intensities to their oversess competitors. Among the large companies, the most spectacular performer

is Renters, the media and financial information group, its R&D spending - mainly on software development - leaped hy another 20 per cent last year to £191m; the figure in

1992 had been only £78m. look at the Yorkshire Water's Much further down the 1993 spending: £5.0m. This patscoreboard, beleaguered Yorktern of slash-and-boost may shire Water stands out for havindicate the state of mind that ing increased R&D spending by got the company into such

218 per cent from £1.7m in 1994 These are just some of the to £5.4m in 1995. At first sight, this seems like interesting corporate storles a prompt response to last sumrevealed by a careful reading mer's drought crisis. But then of the scoreboard.

trouble.

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Sumbono Chemical, Japan Wamer-Lembert, USA Solvay, Belgium Kao, Japan	322,813 251,446 249,392	10 4, -5 5.	534 7	71 305,874 4.4 270,574	105.5 92.9 304.8	293,700 263,768 231,241	299,433 266,679 223,960	304,972 282,021 218,472	Fulfist, Jepsel Hearlott-Persond, USA Boorg, USA	2,82,441 -2 1,482,574 14 816,050 -25	20,343 93 20,300 73 12,569 83	3 383,261 3 318,173	08.2 58.5	2,080,005 1,305,551 1,087,513	1,134,226 1,085,818	2,445,941 1,043,411 1,188,573	14 investment trusts trustor, Section	167,960 -24 187,960 -24	0	163,090 11			10,021 10,021	226,155 226,155
Morck KGaA, Germany Soodyear Tire & Rubber, USA Asahi Chemical Industry, Japan Dulnggon Ink & Chemicals, Japan	243,317 237,859 233,020 212,222	13 24 9 8 -7 73 2 5.	547 9 479 3 211 3	9.6 80,685 2.8 183,305 3.2 129,338 4 181,535	301.6 129.8 180.2 110.8 118.8	215,327 219,824 251,821 207,826 208,449	221,852 206,105 258,305 160,134 213,514	157,051 296,905 277,097 150,481 207,926	Mitsubishi Fisory Industries, Japen United Technologies, USA Eustama Kodel, USA Aerospatiale, France Pockwall International, USA	733,160 6 629,911 -14 602,215 9 511,800 -9 416,006 9	17,788 4. 13,652 4. 9,646 6. 9,395 8 8,360 - 5	344,583 2 402,550 250,368	178.6 182.8 149.6 204.4 168.2	730,551 732,319 553,865 562,243 383,421	768,077 785,134 637,949 683,805 378,268	506,703 734,252 1,022,156 322,542 321,203	15 Mortia Restors, UK Toppen Pristing, Japon	285,222 10 101,000 20 94,222 -5	7 2,703 7.1 7,061 1.3	163,000 11		,000 1	05,908 10,007 95,908	138,388 78,500 57,888
Toroy Industries, Lapon Imperial Chemical Industries, UK Herbird, Gentramy Tallie, Japon PPG industries, USA USA, The Netherlands. Rohm & Hans, USA Voyme, Talkio Kopyo, Japon PRC, USA Misral Petrochemical Industries. Jap Lastrol, USA Estaman Chemical, USA Estaman Chemical, USA	204.317 165.000 166.051 153.184 152.260 138.627 129.460 128.627 120.958 119,167 115,706 107,651 187,630	1 10,0 9 -2 8 4,3 -1 -2 10 13 -7 9 4	209 369 540 545 948 276 341 904 254 071 10	3.6 172,219 1.6 382,000 1.6 172,287 4.3 101,785 3.3 298,399 1.5 148,055 5.7 184,541 5.5 45,735 4.2 65,567 5.3 63,976 0.9 44,697 4.1,587	48.4 96.4 150.5 73.1 93.2 124.1 281.1 154.5 186.3	184,000 185,051 156,756 140,474 140,630 132,630 117,294	177,000 180,901 157,792 125,585 158,702 125,507 111,768 96,125 142,689 140,485 140,485	186,000 186,307 151,000 130,748 171,165 177,856 116,636 93,385 131,773 96,679 161,120	Nementamin, Germany Ricch, Japan Stechala, Francis Catorphiar, USA Sumitamo Dectric, USA Catalar industries, Sunden Kalada, Japan Applied Materials, USA Deser, USA Deser, USA Deser, USA	397,803 -6 343,521 1 312,798 -30 241,530 21	14,442 21 6,365 5. 2,462 12. 10,351 2. 10,953 3. 6,445 3. 1,465 13. 5,738 3. 1,977 10. 5,887 5.	3 214,040 1 107,322 5 53,495 4 140,840 5 227,901 5 20,020 1 185,813 2 13,783 1 17,783	185.9 231.1 234.7 83.7 167.7 69.6 136.4 139. 112.6 540.5 55.7 174.6	422.534 340.702 380.833 200.339 242.832 192.835 192.835 229.649 170.880 171.812 171.573 278.600	367,803 345,001 460,898 205,489 205,487 204,876 207,844 201,873 90,275 173,773 253,000	442,354 964,482 351,545 199,665 199,665 157,671 81,443 214,557 236,546 70,331 185,752 229,000	16 OH, ferbegranbed Societe Nationale Ed Arguhalce, Fran Shell Franciscon & Trading, UK Econs, USA Albab, USA 10tal, Francis Dritish Petroleum, UK Crevens, USA Austoz, USA Albab, USA Albab, USA Albab, USA	2,642,609 -1 735,882 8 483,000 11 338,142 -6 269,786 -7 152,506 -7 138,684 -5 123,000 D 119,154 -3 91,955 -4 85,684 -5	7 27,432 2,7 69,595 0,7 79,814 0,4 4,312 6,3 47,283 0,3 18,005 0,3 23,386 9,5 17,432 0,6 18,571 9,9 10,188 0,7	3,851,000 1 377,837 9 228,927 11 1,260,466 1 468,601 2 1,360,000 1,156,057 1 966,731 1 301,599 3	0.3 679 2.5 437 0.8 358 7.8 289 177 9.6 145 8.9 123 0.3 115 1.4 184 0.5 95	.459 66 .000 5. .397 30 .855 27 .122 11 .927 11 .900 22 .290 14 .240 84	83,329 2, 32,572 23,000 81,839 71,310 93,868 28,506 37,868 37,868 48,762 48,762 48,777 70,204	.921.809 808.207 499.000 401.906 208.970 127.489 315.000 147.494 193.224 99.904 57.323
Cheron, USA Shin-Elsu Chemical, Japan Albara Industria, Germany Colonia-Palmolive, USA	104,112 101,251 100,927	2 3, 7 f,	265 279	3.2 53,873 7.9 33,784 1.9 330,091		101,989 94,500 94,744	121,321 90,106	137,949	Raythess, USA McDospell Daugles, USA Omeon, Japan	203.258 17 200.309 5 194,957 9	7,545 2. 9,230 2. 3,059 9	2 132,580 4 74,297	83.2 151 87.4	173,852 181,292 179,181	179,987 219,637 193,589	188,699 327,837 209,778	17 Other financial IT, USA	255,056 -14 255,056 -14	15,213 1.7	787,066 3			28,48) 26,48)	345,515 346,515
One Pharmacountest, Appar Helstand Nyconed, Norway Ants-Sprono, Suffranting	96,962 94,911 93,064	24	755 13 951 15 439 2	Z.6 25,007 9 103,863 1.2 27,754	335.3	78,512 67,255 89,384	81,584 75,236 75,297	54,475 66,458 85,481	nitit, Japan Sumilareo Metal Industries, Japan Kaustalo Steel, Japan	187,320 -11 187,320 -22	11,251 1.1 8,296 2. 7,174 2.	3 356,076 279,295	40.8 52.3 62.8	248,830 209,799 225,409 174,158	220,195 234,775 146,185	207,058 244,141 274,112	18 Other services and b	B3,045 -5	35	.1			94,734	99,904
Union Carbide, USA BOC, UK Sheekida, Japan	92,747 91,500 91,162	4 3,	544 371	2.4 130,104 2.6 235,300 2.7 33,961 2.6 155,803	36.9 268.4	87,585 88,500 89,299 88,950	85,300 85,299 96,998	99,832 81,250 91,796 98,869	Olympus Optical, Japan Loral, USA Pohang Iron & Steel, South Korea Kawasaki Heavy Industries, Japan	173,790 9 146,850 32 144,829 78 143,562 5	1,573 11 3,532 4, 7,176 2 6,681 2,	2 100,170 492,988	51.3 146.6 29.4 96.3	111,170 81,320 136,232	163,943 80,328 71,210 144,405	159,064 79,159 100,465 135,882	19 Paper, packaging an		2,366 3.5	62,384 13			94,734	100,541
Wirk Gracer, USA Deinippon Pheromicostical, Jupan Green Cross, Japan Henry Victor Norman	85,276 04,300 84,163 71,668	12 3	886 1 771 1	9.5 12,194 1.8 18,906 0.9 295,336	691.3 445.1	75,527 B1,547	9,328 81,653 72,279	64.738 71,456 72,279	Usinor Sadior, France Konics, Japan Mettronic, USA	138,815 -4 136,044 -1 123,245 22	19,464 1.3 3,234 4.1 1,121 17	2 94,253 36,219	59.4 143.4 140.3	144,574 137,431 100,578	171,214 148,809 85,533	149,747 145,635 70,321	Amberly-Clark, USA 20 Pinarrus conticale	133,453 24 8,681,827 4	8,881 1.5 5	1	2 8,355	.625 10 .671 7,8	02,006 69,573 7	100,541
Norsk Hydro, Norway  4. Offwer nittled: Inclinativalia. Prainte, The Nationalist Inclinativalia. Minnesyth Marinty & Manufacturing, Dagueza, Garmany BTR, UK )scalere, USA Johnson Controls, USA Presence, Garmany	2,577,806 1,547,332	-2 4 25, -18 8, 8 6, 9 9, 8 1, 19 5.	900 669 237 778 840	5 8 565,332 6.6 574,532 6.6 125,154 1.2 863,000 5.2 42,278 1.6 84,119 0.6 180,719	12 273.7 99 155.7 13.2 225.8 104.3	2,721,036 1,494,898 678,861 183,151 114,000 87,212 79,866	2,562,080 1,364,914 663,403 211,052 191,000 80,874 81,187 79,650	2,499,705 1,470,585 649,589 216,902 93,000 70,626	Ingereal-Rand, USA Thysiaca, Gentrality Fundersia Bestife, Jepta- Koba Steel, Japoa Fiftish Aerospaca, UK Sister Gethyseder, Svoltzerlend Siebe, UK Festinier, Francis Poteroid, USA Testinos, USA	122,633 Z3 122,401 20 121,539 -4 119,505 -1 119,500 20 116,426 -6 112,500 11 111,239 -3 106,724 3 165,625 7	3,699 3. 17,655 0. 4,165 0. 1,342 1. 5,741 2. 3,712 3. 2,146 5. 9,319 1. 1,488 7. 948 11.	7 339,558 8 127,003 1 404,176 1 127,000 65,773 2 108,900 2 386,945 2 47,964 2 18,367	115.3 36.4 95.7 28.7 177 103.4 26.8 272.4 176.2	99,574 101,701 126,785 121,806 99,000 126,504 101,500 114,977 103,568 98,638	95,676 134,101 125,751 125,535 158,000 132,661 70,000 121,035 95,639 101,164	89,140 135,451 124,819 114,109 159,862 84,900 131,572 98,059 106,867	Roche, Switzerfand Bisso Weldone, UK Mercie, USA Southikfore Beechane, UK Astra, Sweden Zeiteza, UK Bl. Lify, USA Teitedit Chemical Industries, Japan Bicharlog, Germany	1,261,835 -2 1,200,000 0 857,529 8 663,000 2 562,131 47 549,000 6 540,190 -12 418,342 7 380,253 1 295,826 8	8,240 15.8 7,973 15.1 10,743 8 7,011 9.3 3,479 16.2 4,896 11.2 3,678 14.7 4,630 6.7 2,091 18.2 2,228 13.3	1,445,000 8 1,079,930 7 608,000 19 197,193 26 355,000 15 536,132 10 103,584 40 70,903 53 81,167 48	9.4 792 7.4 636 5.1 381, 4.6 518, 6.8 914 4.8 392 5.3 378, 3.5 295	,300 1,00 ,505 73 ,000 57 ,946 22 ,006 49 ,839 59 ,961 43 ,767 25	64.500 55,378 75,000 73,096 90,000 95,719 88,859 37,067 95,433	118,367 849,600 715,960 478,000 201,000 458,000 493,945 373,030 445,035 256,920
5 Electricity Assa Brown Bown, Switzerland SEC Alginous, The Netberlands RWE. Germany	2,368,903 1,892,000 290,000 247,502	12 21, 2 7, -17 28,	244 613	7.6 656,319 4 194,322 0.9 523,681	148.2	283,000 287,452	1,914,708 1,462,707 272,000 180,001	1,981,778 1,536,777 257,000 198,001	Landie & Gyr, Switzerland Linde, Generary Missella, Japon Case, USA Canteny-Bubris, Switzerland	103,510 4 102,455 1 102,508 5 100,476 23 97,956 3	1,517 6, 3,727 2, 2,065 4, 3,179 3, 2,134 4,1	95,085 9 58,331 2 125,595	30.5 105 J 175.9 30 186.2	107,864 102,061 97,950 81,796 95,158	111,950 19,000 112,398 67,187 67,842	115,309 90,000 114,890 56,679 56,423	Roussel tiCLAF, France Yemanouchi Phermacouticht, Japan Fullseva Pharmacouticht, Japan Schertisch, USA Dalich Pharmacouticet, Japan	262,011 9 238,878 9 227,818 -1 222,603 13 198,853 3	2,142 12.2 2,397 19 1,773 12.8 551 40.4 1,592 12.5	115,126 22 85,168 28 59,568 38 5,114 435 39,093 50	0.2 219 2.3 229 6.7 197	396 20 274 24 564 19	15.177 09,424 48,543 90,1 <i>0</i> 7 83,299	205,194 198,534 233,745 173,986 169,900
Veba, Germany  5 Electronic and electric	34,530,701	2		8	2	33,736,450		34,325,454 3,773,267	Artisublen Alektrists, Japan Dalido Indestries, Japan Bactos: Dictoresa, USA Aluvernam Company of America, US	95,533 3 93,518 -5 92,877 9	7,186 1. 2,897 3. 1,747 5. 8,051 1.	218,936 61,747 8 64,571	44 151.5 163.8 48.7	92,573 99,848 92,893 81,025	90,226 101,933 89,816 83,988	99,904 105,973 80,643 136,673	Shioropi, Japan Cargai Pharmaceulical, Japan Synthelato, France Tanabe Selyaku, Japan	169,519 1 158,661 9 157,912 8 123,069 -2	1,486 11.4 1,067 14.5 1,069 14.8 1,317 9.3	14,205 119 27,067 56	3.4 167. 3.9 149. 9.2 146.	,627 11 ,026 13 ,309 13	81,470 39,254 29,991 41,739	177,817 136,750 92,034 140,428
Siomens, Germany Hauchi, Japan Matsuchita Electric Industrial, Japan International Business Machines, US	3,273,332 3,068,621 2,360,523 8 2,181,501	1 47	404 383	62 1,100,641 6.5 693,873 5.4 728,971 47 1,411,825	442.3 323.8	3,023,589 2,383,639	3,129,451 2,508,957 2,853,922	3,243,929 2,510,447 3,273,863	Interprepit, USA Galletie, USA Guidant, USA	88,396 -14 88,174 3 86,757 3	1,909 2, 598 14	184,915 23,637	47.7	103,242 85,727 84,319	96,710 79,737 83,150	88,552 70,140 75,937	Tuisho Pharmoceulical, Japan Alza, USA	117,387 1 66,509 36	1,317 8.9 219 31.5	2,066 567 15,418 43	9.6 116	026 1	10,519 34,234	106,524 33,492
Toshipa, Japan MEC, Japan Soay, Japan	1,886,784 1,680,949 1,493,346	-3 29. 2 23.	915 533	8.3 760,322 7.1 607,375 9 549,319	248.2 273.5	1,944,609 1,633,806	1,946,575 1,717,214 1,449,551	1,985,794 1,888,194 1,502,257	Dresses Industries, USA Abandese-Lonza, Surbantand Lan Research, USA	84,761 28 82,843 -5 82,338 87	3,515 23 4,192 2 513 18	155,051 4,335 1	78.8 53.4 99	66,018 86,761 49,167	98,479 83,963 28,267	73,618 108,532 21,883	21 Retailers, food Drig, Havey	102,048 4 102,046 4	2,194 4.7	119,175	5.6 97	,796	77,173 77,173	
Ericason Telefon, Jaroten Moloroka, USA Monotetti Electric, Japan	1,489,849 1,415,045 1,834,428	13 9 19 17	800 1. 414	5.3 224,103 8.1 289,836 5.1 445,405	488.2 232.2	1,197,990	1,061,675 979,647 1,052,481	716,951 841,169 1,052,093	Hitachi Cable, Japan Doubsche Baboock, Germany EHC, USA	91,977 4 76,850 1 75,951 100	2,204 3.743 2.743 896 8.7	22,034 9,851	78.4 149.2 170.2	79,118 75,050 37,985	74,460 90,450 21,535	69,827 79,200 78,312	22 Retailors, general Rots, IX	67,400 0 87,400 0	4,308 1.5		1.8 67	,600 (	68,000	58,900 58,900
Robert Besch, Germany General Bectric, USA Cerron, Stypes Inde, USA Sharp, Japos Digital Equipment, USA Jesus Instruments, USA	1,014,780 856,661 782,083 715,573 714,780 669,882 597,062	2 15, 10 45, 3 13, 15 7, 3 10, -20 8, 35 8,	103 594 420 102 455	6.5 95,850 1.8 8,529,874 5.8 297,003 9.6 115,934 7.1 179,322 7.5 81,004 7.1 187,561	12.8 263.3 617.2 398.6 825.9 555.1	757,439 751,232 524,756 691,157 838,172 443,771	1,035,910 105,372 650,571 552,327 653,128 925,520 380,007	964,809 861,441 627,636 390,672 631,346 1,129,652 302,718	Nitura, Jagosi Sanchik, Sweden Alba Caputa, Sweden Oce-van der Grintan. The Heithertu SHIH, Switzerland S Englisseerlang, weikildless Seneral Motors, USA	67,170 94 21,694,840 12	1,798 42 2,886 21 2,376 21 1,178 53 1,490 41	185,198 8 65,092 7 48,975 6 46,076				63,074 46,552 68,071 17,442,721 3,816,959	23 Support neurices Microsoft, USA Sur Microsoftems, USA Housel, USA Housel, USA Computer Associates International, USA Lotts Development, USA Lutts Development, USA	1,855,525 18 553,908 41 334,847 14 236,739 8 167,845 11 54 149,532 10 124,419 20 102,195 25	21 3,823 14.5 3,801 9.6 1,314 18 1,910 8.5 1,863 6.7 625 16.3	11,487 291 0 4,489 373 35,935 41 73,144 17 3,410 298	362 4.8 292 223 8.8 151 7.2 136 0.1 103	.889 31 .841 21 .306 11 .487 11 .076 14	02,718 86,845 86,937 09,147 43,845 85,267	258,543 226,816 245,806 146,083 80,829 130,303 71,804
Xurte, USA Sanyo Bectric, Jepan Thomson, France	576,452 553,576 493,230	1 11, 2 10, -4 8,	877 801	5 741,881 5.1 298,433 5 570	185.5 85509.6	545,219 514,698	553 842 534 538 549,294	573,231 531,187 570,672	Ford Motor, USA Describer-Bosc, Germany	4,192,322 25 2,385,023 Z	71,168 51 45,597 5.1	1,404,740 1 543,605	38.4 3 38.7 3	358,237	3,233,930	2,790,158 2,160,021 1,350,013	Arndabi, USA Adobe Systems, USA	96,360 -28 89,279 40	976 9.9 490 18.2	6,750 142 8,487 105	7.4 130	903 2	76,199 15,454 55,859	75,090 239,833 41,981
General Specific, UK Apple Computer, USA Noble, Fishand Natausthia Electric Works, Japan Graups Schneider, France Advanced Micro Devices, USA Linteys, USA Companying des Micromes Brill, France Linteys Company of Lagan, Japan AMP, USA	412,000 395,465 375,441 307,505 289,748 256,057 239,248 230,117	9 7. 31 5. 5 6. 0 7. 42 1. -24 3. 11 4. -31 3. 2 4.	,124 ,460 ,999 ,370 ,565 ,102 ,102 ,939 ,760	7.1 332,000 5.5 88,272 6.9 242,866 4.4 166,025 3.9 244,455 6.4 12,062 5.9 297,587 5.6 96,561 5.8 97,780 47 27,423 6.7 150,307	579.2 154 187 ( 118.5 2119.2 113.8 236.3 235.2 625.8	287,329 292,514 289,748 180,332 311,346 207,058 335,519 222,649 170,681	395,000 428,030 718,352 252,944 259,748 189,255 331,800 252,405 346,644 232,340 166,172	417,003 367,823 165,099 297,034 259,932 145,750 345,162 272,752 376,384 255,973 175,190	Visit-swingers, Germinny Hunda Michry, Jepon Personal, France Caryster, USA Fiet, Usty Petigeot, France Reportelesco, Japan Notice, Sweden TIFM, USA MAN, Germany AllertSigner, USA	1,257,562 5, 1,049,965 3 874,594 9 762,772 -14 773,851 -14 743,005 7 706,365 55 271,862 2 241,852 -4 227,360 11	24.242 4.3 31.947 2.1 26,487 3 21,888 33 8,818 84 16,666 4.1 6,551 4.1 8,170 2.0 9,229 2.1	299,816 3 531,292 3 1,154,837 585,775 586,093 104,824 3 545,316 138,772 5 251,496	7928 1 7939 1 792 884 9319 1 1088 1299 161.1 1742 86.8	,178,985 ,015,040 839,237 971,861 902,960 896,833 447,450 265,361 262,002 264,817	1,244,016 909,019 792,219 1,055,805 874,644 691,214 426,263 243,462 235,362 201,597	1,201,618 815,208 678,284 1,615,005 681,576 688,735 600,423 253,123 240,752 296,105	2A Teleconstrammications American Telephone & Telephone, Use Aspon Peleproph & Telephone, Japa Alcand Alaham, France Borthern Telecon, Casada Sel Catedia Enterprises, Carada STET, Buly British Pelechmystrations, UK Nynes, USA GTE, USA		13,703 2.2 13,863 2 8,570 1.2	2,220,027 8 294,521 48 174,545 58 1,055,962 9 1,205,774 2 1,522,000 1	1.1 2,003 8.3 1,839 7.2 1,387 2.7 744 5.4 758 4.5 276 7.8 265 8.6 65	091 1,93 1,220 1,94 235 1,95 557 35 441 51 981 21 900 25 406 6	76,584 1 44,864 1 91,359 1 94,486 87,485	9,968,843 874,919 ,791,330 1,339,556 762,005 593,624 241,000 69,616 102,408
AMP, USA Fuji Photo Film, Jupan 12ndom Competers, USA Honeywell, USA	210,167 208,165 205,461	-56 2, 20 1, -5 3,	922 471 1 901	7.2 67,319 4.1 8,436 5.3 129,663	312.2 2466.8 158.5	173,429 217,312	468,470 223,108 201,339	425,855 203,218 193,675	Maleo, France Customes Brighte, USA Estato, USA Touting, USA	198,214 14 148,138 -3 146,206 7	3,322 6 3,378 4 4,393 3,3	34,135	33.7 34 112.4 19.1	174,244 153,098 137,189 120,443	139,737 101,754 99,186 125,596	127,357 83,086 90,815 110,781	25 Textiles and apparel turacy, Japan	78,356 -5 78,356 -5	2,041 3.8	-1 50,551 15		A21 (	92.842 92.842	80,729 80,729
Nancywal, USA SAP, Gormany Fuji Bechic, Japan Prones Electronic, Japan National Semiconductor, USA	197,191 194,126 186,509 180,309	19 1, -1 5, 1 3,	213 1 344 1 184	6.3 62,484 3.6 112,554 5.8 55,272 1.9 11,529	172.5 337.4	166,321 195,706 185,503	120,468 207,844 179,621 130,297	105,841 204,804 165,753 123,727	Textron, USA Prinsil, Isaly Pulji Heavy Hotestries, James Lucias Industries, US	116,578 -3 116,522 7 116,170 -6 105,700 8	4,165 2.1 3,974 2.5 6,887 1.3 2,796 3.1	157,118 103,557	191 523 122 909	123,682 96,700	193,724 181,274 90,800	121,800 153,209 98,300	26 Tobacco Japan Tobacco, Japan	195,438 -1 195,438 -1	22.284 98	62,440 31	197.	.935 14	44,237 44,237	123,631 123,631

# Focus on competitiveness

Debate is already under way about the direction of the Fifth Framework Programme

The European Union's Fourth Framework Programme for Research and Development, which will distribute Ecu13.1bn (£10.9bn) in R&D grants over the period 1994-98, is in full swing. But planning is already under way for the follow-up Fifth Framework Programme

Sevaral national governments put forward their preliminary views to the Europe Commission in Brussels this month. And it is clear that France, Germany and the UK have several ideas in common.

The three countries believe that, compared with the fourth programme, Framswork Fiva should:

• focus more on industrial competitiveness

 involve users more closely: • have a more streamlined management structure; and · contain fewer specific programmes than the current 17. They will also resist any attempt to Increasing EU spending on R&D.

However, as Ian Taylor, the UK science and technology minister, says, everyone accepts that there is a "clear need for a further programme of research and technological development at European level to address questions of industrial competitiveness and to provide support for European

The R&D Scoreboard is prepared for the

Department of Trade and Industry by

Company Reporting, an Edinburgh con-

sultancy. It is based on figures published

in annual reports and accounts up to May

The UK table (on page 4) shows the top

300 R&D spenders extracted from the list

of 446 companies in the full scoreboard.

Those in italics are unlisted companies or

the UK subsidiaries of foreign-owned

companies. The remainder are companies

based in Britain and listed on the London

The main international table (on page

1) shows the world's top 300 R&D spend-

Stock Exchange.

policy making".

The essential requirement for applying for a Framework grant is that the proposal must involve at least two participants from different EU countries. They may be companies, universities or other research institutions in the private or public sector. European subsidiaries of companies based in the US, Japan or other non-EU countries are eligible. The EU normally contributes up to half of the project's cost.

Framework is intended to fund pre-competitive research, in contrast to Eureka, the other big European research scheme. Eureka, an inter-governmental initiative outside the EU, supports projects that are closer to commercial appli-

The UK suggests that Frame-work Five should he "organised primarily around objective-driven themes which seek to address the medium-term technological needs of European industry, to contribute to improvements in quality of life, and to support European policies more broadly". The fourth programme, in contrast, is based on 17 subject areas, ranging from information technology (the Esprit programme) through environment and cli-

mate to nuclear safety. Illustrative examples of possible themes are given in the UK auhmission - many of them suggested in Britain's Technology Foresight exercise, involving thousands of people from the country'a business past two years. They include:

The tables and how to read them

 Intelligent business and administration: innovative use of information systems in business and public services; Agile enterprise: developing

a responsive, adaptable busi-

Europe: Towards tomorrow's car: technologies for the environmentally friendly, more efficlent vehicle: ● The informed citizen:

empowering the individual

Europe's universities are urging the EC not to abandon its support for basic research

through easier access to information for culture, leisure and self-development Batter building and con-

• Europaan seronautics for world markets: Molecular and bio-technologies for compatitiveness and quality of life;

Sustainable farming and

fishing. Some of these themes should strike a sympathetic chord in Brussels, where eight EC task forces have recommended areas of R&D likely to be crucial for industrial competitiveness, employment and quality

EC areas are similar.

ers, whether or not they are listed compa-

nies, broken down according to their

Company Reporting's non-UK data are

snpplemented by Standard and Poor's

Compustat Global Vantage database. All

currencies are converted to sterling at the exchange rates on December 31, 1995.

R&D that is funded by the company any-

where in the world. R&D paid for by

governments and other external sources

The figures are subject to uncertainties

of definition. The UK definition is con-

tained to Statement of Standard Account-

The R&D spend shows the amount of

The German government has also suggested a set of themes - ageing, robotics, vaccines and viral diseases, clean power generation, tele-medicine and the car of the future.

A hazy outline of Framework · Energy for tomorrow's Five is thus beginning to appear. It would have a set of perhaps a dozen themes, cutting across a smaller number of discipline-related programmes. These technologies might include: information and communications: life sciences and medicine; energy; environment and the sea; engineering and materials; social and eco-

nomic sciences.

Despite the likely industrial orientation of Framework Five, Europa's universities are urging the EC not to abandon lts support for basic research. The European Science and Technology Assembly, an inde-pendent group of scientists, wants 10 per cent of Framework funds to be devoted to basic science. And tha UK Committee of Vice-Chancellors and Principals soggests that EC funding of basic research should rise from balf to three-

quarters. EC officials expect to complete a preliminary outline of their ideas for Framework Five this summer. It will be worked up into a full proposal for sub-mission to the council of ministers early next year. But experience with previous Framework programmes suggests that negotiations between the EC and member states over funding and content will continue well into

ing Practice (SSAP) 13. For international

companies, the definition is governed by

International Accounting Standard (IAS)

9. Both these definitions are based on the

Cost of funds is the sum of equity and

preference dividends, interest payable

and other financing costs (such as the

The printed version of the scoreboard is

A floppy disk is available for £75 from

Company Reporting on +44 (0) 131 558

available free from the DTI Innovation

finance element of lease payments).

Unit by calling +44 (0) 171 215 1217.

OECD "Frascati" manual.



Long-term research: a second world war stock of 8,000 human brains - the Corsellis Collection - has been opened up to scientists. Keen Land

■ External resources: by Michael Kenward

Independent groups are benefitting from foreign enthusiasm for research

While British companies continue to compare badly with their competitors when It comes to investment in R&D independent research and technology organisations (RTOs) are benefiting from the greater enthuslasm for research among foreign companies.

The latest figures available from the Association of Independent Research & Technology Organisations (Airto) show that between 1992 and 1994, the organisation's 38 members saw overseas sales rising from 20 to

27 per cent of turnover. The contract research sector as a whole has fared no better than the rest of British industry. But the flat level of income is due mostly to declines of 30 per cent in the income of WRc. the Water Research Centre. down to £21m last year, and around 20 per cent for Pera Group, down to £25m.

Brian Blunden, chairman of Airto and managing director of Pira International, highlights two reasons for the growing importance of exports to Britain's RTOs. As well as the greater enthusiasm for R&D in foreign companies, there is generally more interest in outsourcing R&D. "The world market for outsourcing R&D is growing significantly," says Mr Blunden. The recent CBI/Nat-West Innovation trends survey revealed a continuing rise in R&D collaboration.

The survey found that in the UK about 70 per cent of companies collaborate with government and commercial research organisations. The survey also found that 82 per cent of companies collaborate with universities and 80 per cent with other companies. According to the survey, academic-industry links have become more inter national in nature.

Airto says that its members have annual sales of sbout £350m, £300m of it directly from industry. As Mr Blunder points out, members' sales are two and a half as much as universities manage to extract from industry. By contrast, universities have a total research hudget of about

One sign of the relatively healthy state of the RTO sector as a whole is the increased membership of Airto, up from 34 members last year to 42 now. The organisation's mem-bers carry out work for 19 of the top 20 companies in the UK R&D Scoreboard, and all of the top 20 companies in the international league table.

One new member of Airto this year is CRL, a subsidiary of Thorn EMI and formerly the electronics company's R&D wing. Now earning about 95 per cent of its income from outside the parent company, CRL concentrates on developing and exploiting patents and other intellectual property rights rather than on straight

Much of CRL's recent growth, running at between 15 and 30 per cent a year, has come from the Far East and North America. Dr John White, managing director of CRL ascribes the growing impor-tance of these markets to the economic recession in Europe, which has hit R&D budgets. Dr White expects to see growth in Europe'a contract R&D spending even if the economy stays

He believes that companies realise that they cannot hold

down R&D spending for more While RTOs are leading operators in contract research, than a few years if they do not cal compound". want to cause permanent harm there is a growing acceptance to their technical competitiveof the mechanism among high-

Contract research organisations can thrive aven when their industry is in recession. For example, the travails of the motor manufacturing sector have done little to harm MIRA. the Motor Industry Research Association, MIRA, celebrating its 50th anniversary, increased turnover by about 25 per cent

John Wood, MIRA's managing director, believes that the growth "reflects changes in our industry." Leading car manufacturers are reducing their supplier base and buying from a smaller number of suppliers, a strategy that applles to service providers as much as to makers of components.

Customers now give MIRA reater responsibility for complete projects, including vehicle development programmes, as well as work to develop components. Contract research also has a value in trouble shooting. "Companies don't like keeping a large number of engineers on the shelf waiting for a problem to occur," says Mr White. If a prototype vehicle turns out to be noisy, for example, MIRA has expertise that can come into By snstalning its own

research programme, MIRA has been able to enhance its appeal to customers who want to participate in pre-competitive research. One such programme involves working on fuel cells as possible power supplies to replace the internal combustion engine. Pre-competitive research also

involves the role of the RTOs as bridges between their cus-tomars and the academic world. On fuel cells, for example, Mira works with Loughborough University.

tech companies in general. Oxford Molecular, for example, started its business providing the pharmaceuticals industry with software tools to help in tha development of new drugs. Its original aim was to exploit computer-aided molecular design, developing software that encapsulates the scientific knowledge of how molecules

and atoms behave. As well as supplying software systems in the increasingly fashionable area of bioinformatics to such industry leaders as Glaxo Wellcome, Oxford Molecular has moved into contract research in drug discovery. The company already has a collaborative arrangement with Yamanouchi, Japan's third largest pharmaceuticals company, and Alizyme, a UK biotechnology

Dr Tony Marchington, chief executive of Oxford Molecular, envisages a rapid increase in revenue from contract research from 8 per cent in 1994 to more than 30 per cent next year. It plans to do this by helping large companies to deal with the flood of ideas for new compounds thrown up by academic research.

As contract researchers, says Dr Marchington, "we have got to offer something that they do not want to source internally". The company's strategy is to assemble small "virtual teams" to develop drugs, combining the modelling expertisa of Oxford Molecular with scientific akills drawn from the company's growing network of academic contacts. Such an approach can fill what Dr Marchington sees as a gap in the expertise of the large companies, the ability to demonstrate "proof of concepts showing that a scientific idea has the

Just as MIRA has benefited from the new approach to purchasing by leading car companies. Dr Marchington believes Oxford Molecular can do well out of contract drug development because the pharmaceuticals companies are also changing. No longer are they small. In terms of market share, and determined to maintain expertise in every area of their activlties. Dr Marchington believes the enlarged companies will "look more and more to source research and devalopment of new chemical entities. It is a part of an overall trend of the pharmaceuticals industry

maturing", he says.
"Virtual R&D" is itself a growing phenomenon, but one that has to be managed carefully, says Dr Steve Bone of business and technology consultants Scientific Generics. He warns that while virtual R&D can bring buge benefits, "companies don't seem to spend enough time up front thinking about what their technology strategy is and what should be insourced or out-sourced".

Companies in Europe have damaged their technical competence in the rush to downsize operations, says Dr Bone. In North America, by contrast, the emphasis has been on developing core competences. Companies see outsourced R&D not as a way of overcom ing a shortage of capacity in-house, but of acquiring technology more quickly and of spreading risks.

Parhaps more important, says Dr Bone, outsourcing is ising R&D. "You get your R&D team to look outward rather than inwards." By contrast, be still detects in British companies signs of tha "not invented here" syndrome, a reluctance to pick up ideas from outside the organisation.

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TOP 50 INTERN										-
		Correct R&D Spending £'000	change	Sales	RAD % of sales	Cost of funda 2'000	R&D as % of COF	1994 2000	1993	. 191 E'0
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cate! Alsthorn,	France	1,435,307	3	22,079	6.5	294.621	487.2	1 202 402		_
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orthern Talacom.	Canada	1.017,003	-1 37	20,299	5.1	445,405	232.2	1,048,361	1,052,481	1.002
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■ The chemicals industry: by Jenny Luesby

# Commerce to the fore

The benefits of being several steps ahead of the competition have been re-evaluated

R&D by the chemical industry may once have been linked to grand aims such as solving global problems. Today its objective is to daliver incremental product improvements. Scientists have been reorgan-

ised, retionalised and refo-cused, to link their work to the needs of customers and accelerate development. The result, claim chemical producers, is a smaller proportion of sales income delivering greater commercial gains.

The fall in the ahare of income spent on R&D is clear from the scoreboard. The R&D intensity of the world's leading chemical companies has fallen to 5.5 per cent, from 5.8 per cent last year - despite the inclusion in the scoreboard of smaller companies with higher spending levels.

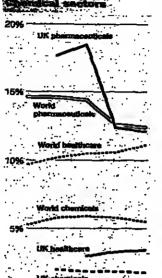
But whether this lower spend can deliver more depends on the argument that mical companies need to be only one step ahead of their rivals to secure competitiva advantage. If this is the case, abandoning programmes putting them five steps ahead in favour of cheaper schemes delivering incrementel improvements over e wider product range should be beneficial

On this basis, companies are shifting ewey from basic research, defined by the US Chemical Manufacturers Association as exploring "unknown facts and principles of general validity, without regard to

commercial objectives". Applied research, using known phenomena or substances to meet an objective, is also losing ground and com-

mercial development is moving to tha fore. Last year, US chemical companies spent 56.7 per cent of R&D funds on development, 33.5 per cent on applied research and 9.5 per cent on basic research.

However, even where companies agree that the function of chemical industry R&D should be commercialising existing science, views on bow this is



Dow vice-president

the scientists.

are being brought in as soon as

a scientific advance is made

and marketing teams pass on

But information systems do

not provide sufficient commn-

nication to get the most from a

company's R&D opportunities,

says John Beacham, group

research and technology man-

ager for ICL "Companies can-

not just use information tech-

nology and expect to share everything," he says. For this reason, ICI last year

reversed the decision taken in

the early 1980s to conduct all

its R&D et business level and

re-established a central R&D

unit. This has given it the best

of both worlds, says Mr

on customers and markets, but

stitches together our technol-ogy," be says. "The central

unit performs sophisticated

central networking functions, and offers a critical mass of

skills in developing general

ICI needs to be sure it has

found e better way of employ-

ing its R&D resources than its

competitors, because it spends

far less. The world's eighth

largest chemicals company by

sales, its R&D budget is only

spends on R&D ranking 50th

out of the 51 internetional

chemical companies included

in the scoreboard. This is

partly a reflection of product

mix, since most chemical com-

panies have e drugs arm which

devotes greater levels of resources to R&D. ICI has no

The group's R&D ratio, 1.8

per cent, also axcludes its

spending on technical services.

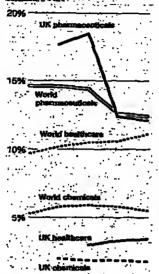
pharmaceutical products.

eacham. "It gives us the focus

best achieved differ.

Spending at Dow Chemical.

one of many producers to have reorganised its R&D operation units tied to each business, has fallen by 36 per cent - more sharply than that of any other company. Most of this fall is due to the sale to Hoechst of its stake in drugs producer Marion Merrill Dow. But excluding MMD, the group's R&D ratio fell from 4.7 per cent to 4 per cent last year, and it aims to cut that ratio to 3 per cent, says Rick Gross, e



Most chemical companies The company has introduced include this as R&D spending," state-of-the-art information says Mr Beacham. "If ICI did, it would push the ratio up to 2.4 systems, ba says. To speed up development, business teams per cent".

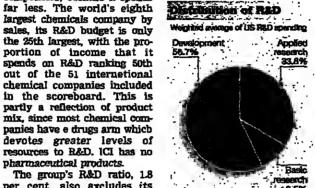
The figure is still low, however, as is the intensity of R&D among all the UK's leading far more information about chemical companies - at 1.8 their customers' difficulties to per cent last year, down from 1.9 per cent in 1994.

One British producer points to the relativa cost of scientist as a reason for this, with a leading researcher likely to be significantly more expensive elsewhere in Europe, and more than twice as expensive in the US or Japan.

Perhaps as significant, how-ever, is the uniformity of the level of R&D spending by British chemical compan

As strategists throughout the industry debate how low is too low for an R&D budget, one of the more obvious benchmarks is the level of spending by peers. As Mr Gross of Dow points out, "our aim is an R&D programme that is appropriate to our business mix, opposite the industry".

The chemicals industry remains science based, but in such a mature sector, the gains of moving much faster than the pack bave been deemed insufficient to pass the test of sharebolder value.



■ The motor industry: by John Griffiths

# Burden shifts to suppliers

As outsourcing grows, components makers are taking on responsibility for R&D costs

There is something of a paradox in the Department of Trade and Industry's research and development spending scoreboard when it comes to the world's motor industry.

The R&D spending of most big vehicle producers is sbown to be rising sharply. This should not be surprising. Vehicle building is an industry product and its manufacturing processes subsume a broader spread of technologies than almost any other sector. The technologies available to it are themselves advancing at bewildering speed. Not least, sweeping changes to products and processes are being driven by proliferating environmental and safety legislation, as well as consumer preferences.

The fragmentation of vehicle markets into an ever greater number of niches - such as "lifestyle" four-wheel-drives, sports cars and multi-purpose vehicles (MPVs) - can also be expected to jeck up the R&D bill, as the need for a broader model range increases and the opportunity for long production runs and their associated

economies of scale diminish. Yet a profound structural change is also going on within the industry which should reduce the vehicle makers' R&D spend: the outsourcing of an greater number of components and component systems lo independent suppliers.

Not only are these suppliers typified by Robert Bosch of Germany, Mugneti Marelli of Italy and Lucas Industries (sono to be Lucas Varity) of the UK - following the big vehicle

World 300 comparisons



Mercedes-Benz' All Activity Vehicle concept the fragmentation of markets into niches will push up the R&D bill

makers into whichever region of the world they wish to make or sell cars. They are also being required to design and develop, as well as manufacture, these complex components. This is because even vehicla makers as large as General Motors, the world'a biggest, are coming to regard their core role as being assemblers of vehicles rather than

integrated manufacturers. Thus an ever larger share of the total motor industry R&D burden is being borne by the supplier industry. in some, but by no means all,

cases this does show up on the DTI's motor industry scoreboard. Valeo. the French compopents group ranked 15th on the scoreboard, last year atepped up its R&D spend by 14 per cent, well ahead of its 9 per cent rise in sales, as part of its drive to secure a broader spread of international business by increasing its systems design and development capa-

bilities. For some companies, such a jump could correctly be interpreted as a panic response to change after e period of underinvestment in R&D. By European standards, bowever, Valeo has been e consistently

above-average R&D investor at about 6 per cent of sales. GKN, T&N and Lucas of the

UK - each determined to be among the few dozen "global" companies into which the components industry is expected to coalesce within the next decade - also ramped up their R&D spending by significant amounts last year. However, the improvement was less impressive than their sales performance. GKN's 14 per cent increase in R&D speed, for example, trailed marginally behind a 17 per cent jump in sales and Lucas's 9 per cent rise compared with a 12 per cent sales hike.

On the face of it, last year's rise left Valeo well ahead of 10tb-ranked Nippondenso, Japan's largest motor components group and among the most outward-looking of Japan's components suppliers.

But while Nippondenso's spending rose by "only" 7 per cent last year, this was despite 1 per cent drop in sales as Japan's motor industry contin-ued to be battered by recession and still left the R&D "spend" abova 8 per cent of sales. Measured by such yardsticks, the UK motor components sector is at best an everage performer

European standards, at about 2.5 to 4 per cent of sales. The big fluctuations showing

by North American and west

up on this year's scoreboard for UK-based vehicle makers mostly reflect structural changes within the companies. Only Ford and the BMW-owned Rover Group have substantial R&D operations in the UK. The 19 per cent drop in Ford's UK spend last year in part reflected changes in how R&D is being shared between Ford's Duncton engineering centre in the UK and Merkenich in Germany as the "Ford 2000" globalisation programme gathers

The 23 per cent jump at Rover Group is more encourag-ing - reflecting the more than doubling of investment at Rover planned over the next five or six years by its German parent, compared with previous investment levels under former UK owner British Aerospace. "Total investment in Rover will be at the rate of 2500m to 2600m a year to past the end of the decade, allowing us to undertake programmes we could not previously have contemplated," says a Rover

Not least, it will allow Rover to develop further its engine technology, as tha industry prepares to grapple with tough new exhaust emissions standards for European cars unveiled by the European Commission last month.

Such legislative pressures are not only forcing up R&D spending, but also helping forge new alliances within the industry to tackle them. Thus the planned merger between Lucas and Varity Corporation. the US diesel engine and components maker, is intended to create not only scale economies but also a combined R&D effort greater than the sum of the individual companies' parts. Lucas is a world leader in brake components, for example; Varity, through its Kelsey-Haves subsidiary, is a leader in electronic vehicle traction control systems. Together, as a Varity spokesman said at the merger's launch, "it's a combination which could be pretty hard to

Indicators: by Vanessa Houlder

# **Evaluation** proves tricky

Innovation is hard to measure and is not always directly reflected in financial gain

The acoreboard measures spending on R&D - one of the most important inputs to innovation. But increasingly, ettention is being focused on the ontputs of R&D spending, as governments and businesses seek to improve the efficiency with which R&D is translated into new products and ser-

The issue has been taxing the ingenuity of the Organisa-tion for Economic Co-operation and Development which bas been researching ways of improving measures of R&D outputs since the late 1970s. "It has long been known that

R&D indicators give an incomplete picture of technological change in industry." it says in a recently published report on innovation, patents and technological strategies. Although petents are used

increasingly as innovation

indicators, they heve serious limitations. Companies do not always take out patents to protect their innovetions, either beceuse they find the cost excessive or because they pre-fer to rely on industrial Moreover, not all inventions

are necessarily patented. Soft-ware, for example, is legally protected by copyright. One approach to overcoming the shortcomings of patentand R&D-based statistics is the publication of innovation surveys based on questionnaires

completed by companies, The OECD considers these surveys to be particularly apt at showing the type and behaviour of firms involved in innovation and for measuring certain aspects of the innovation process. "As a valid indicator of innovation, bowever, such surveys still suffer from the lack of international harmonisation and standardisation." It

One of the reasons that patent- and R&D-based statistics are falling from favour stems from a re-evaluation of the relationship between R&D and innovation. Scientists no longer see innovation as a linear process in which basic research is inexorably converted into new products and services.

This point is made by the OECD. It notes the need to "challenge the traditional idea of R&D as the hinge linking science and innovation in e linear innovation and replace it with a more systemic concept which stresses the interactive processes at work in developing, disseminating and improving knowledge."

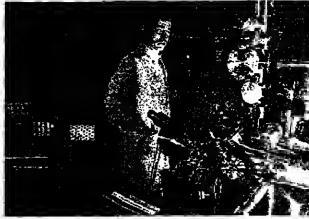
The issue was also raised at a seminar on R&D valuation organised by SmithKline Beecham last September. "The linear model has had its day and needs to be put to rest," con-cluded the seminar. It said that e period of R&D work might only produce innovation in the very long term and "often in a most unexpected way", said George Poste, R&D director of

SmithKline Beecham The seminar put forward several reasons why the process of innovation is so diffi-cult to pin down. "Successful invention need not necessarily lead to success in the marketplece: R&D departments may be functioning with wonderful efficiency and imagination, but if their work is poorly commercialised, no financial eain will accrue," it said.

Moreover, there is the need to appreciate and benefit from technology transfer from other fields, or to spot new opportunities in existing sources of

Another problem is that there may be a long gap between research and a return from the market. It is also difficult to ettribule a particular economic effect to a particular niece of research. Another issue is that those

doing the research are not necessarily those benefiting from it. Studies have shown that only a fraction of the benefits of inventions is captured by the company that invented them, even when patent rights



Taxing issue; the link between R&D and innovation is bei

These issues present real difficulties to companies that are attempting to quantify the results of their R&D spending.

"Companies have found it far more difficult to measure the contribution of R&D to business performance than to measure most of the other functions in the value chain." says John Marriage of PA Consulting Group.

One reason is that the value of R&D usually appears several years after the money has been spent Another is that it is hard to define what part of a product's success is due to R&D work, as opposed to other functions such as marketing and distribution.

Some companies are prepared to take a retrospective approach to this issua. While at BP in the late 1970s, Sir John Cadogan, now directorgeneral of the Research Councils, developed a system in which business managers were asked what contribution past R&D had made to their bottom line. "Concentrating as it did on real benefits in the bank, rather than speculations ebout the future, it was e powerful

tool indeed," he comments. Other companies ettempt to lcok forward and calculate the likely returns on their current investment in R&D. Traditionally, these calculations have been based on discounting future cash flows.

But discounted cash flow techniques beve limitations. They have been criticised for dealing inadequately with uncertainty and failing to capture the value of unforeseen spin-offs.

One way of overcoming these problems is by breaking up the project into a number of phases, each of which bas its separate discount rate, Another approach is the theory that was originally developed for valuing financial

Terry Faulkner, director of strategic planning at Eastman Kodak, is an enthusiast fur this approach. "Our experience over the past few years has confirmed that the use of options pricing theory concepts hrings valuable insights into the R&D valuation process." hc says. He has found that an options approach often yields a substantially higher valuation

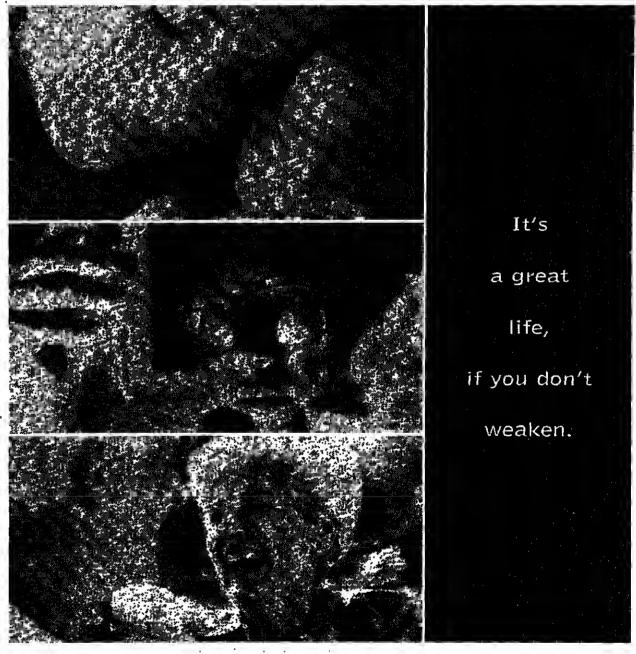
than a DCF approach. "An options thinking mindt emphasises the uncertainty of the future," says Mr Faulk-ner in an article in Research & Fechnology Management.

But even this kind of sophisticated approach to R&D evaluation may have limitations. By concentrating on numerical indicators, there is a danger that the less tangible benefits will be overlooked.

This point bas been underlined by research by Luke Georgbiou of the University of Manchester's science policy unit. He suggests that a more comprehensive list of potential benefits to the company needs to be drawn up, including the benefits to management practices and the organisation's capacity to absorb knowledge.

Given the complexity and controversy surrounding the measurement of R&D outputs. it is perhaps unsurprising that some companies prefer to view investing in R&D as an expression of faith in the future.

The case for this approach was made by James Niedel. R&D director of Glaxo Wellcome at last year's seminar where he argued that a pervasive sense of corporate optimism played an important role in the decision to invest in research. "If you don't invest in the future, you don't have a application of options pricing future," be said.



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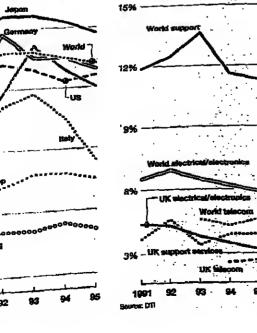
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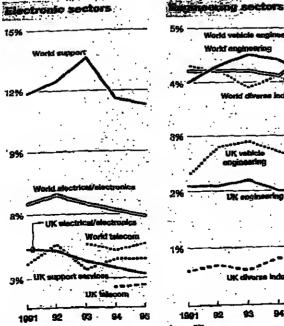
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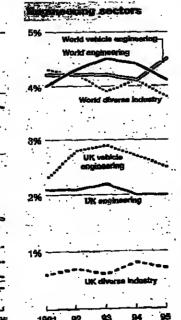


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Financial reporting: by Jim Kelly

# How to account for the intangible

What constitutes R&D expenditure and how it should be treated in company accounts is under debate

Cable & Wireless, the UK-based telecommunications group, must be wondering what it has to do to get on the R&D Scoreboard. Its 1996 accounts do contain data, painstakingly collected from around the business, but it may not make the next scoreboard. The reasons run to the heart of the many problems surrounding R&D and financtal reporting.

In 1994 Sydney O'Hara, C&W strategic development adviser, said the company would provide figures for the scoreboard. Last year he said it was taking time to agree the basis of the figures with auditors KPMG. "The profile of R&D has escalated unbelievably within the company, and there

will be a figure next year," he said.

Mr O'Hara kept his promise in the
1996 accounts — which will be considered for next year's scoreboard. But
David Tonkin, whose consultancy
Company Reporting compiles the
scoreboard, believes the methods chosen by C&W for disclosure bar the
figures from inclusion. The two sides
are talking about the way forward.

C&W's accounts state, within the directors' report, that "Included within capital expenditure for the year is £86m of successful technical development which formed an inte-

gral part of capital projects." A further 25m was charged to operating profits to cover various costs such as "support for research institutions". C&W believes £91m is therefore its R&D figure.

Mr Tonkin says that when he read the figures presented in this fashion, he felt strongly that he was not dealing with an "R&D culture". He added: "They may have bent over backwards but it may well be they failed because the message that's coming through is that they are actually not an R&D

based company."

Chris Tyler, corporate financial accountant, agrees: "Fundamentally we are an operator not a researcher." He explains that C&W is "an operator of other peoples' kit which we have to tailor to fit us and then enhance". With no research laboratories, although C&W has access to other people's, Mr Tyler had to go out and search for the R&D costs.

The basis of the C&W business is a "state of the art telecoms system". Mr Tyler asked the company's fixed asset accountants to look at the system and using criteria from the current accounting standard on R&D, SSAP 13, to identify the development element of capital expenditure.

Such criteria included: feasibility studies for new technology; design of products, services, and systems involving new technology; design, construction, and testing of pre-implementation prototypes; and the building and operating of pilot systems using new technology.

The problem is that development expenditure under SSAP 13 should be written off or, in specific cases, capitalised as an intangible asset. Mr Tyler chose the disclosure he did, after talking to auditors KPMG, because he felt the £36m was fundamentally an integral part of fixed assets - and only secondly R&D expenditure, and therefore a tangible

rather than an intangible asset.

Mr Tonkin would like C&W to make
it explicit that SSAP 13 was used to

'No one really knows what is going on – what resources are being

committed'

identify the £86m and that a note should therefore appear to the fixed assets in the company's financial statement, not in the directors' report. But Mr Tyler believes this will lead to confusion because \$\$AP 13 is only used in such circumstances linked to intangible assets — and there is nothing intangible about C&W's telecoms

Mr Tonkin is also unhappy about the £5m disclosure. "This is a bit obscure. It sounds more like a gift." He explains that the objective of the R&D Scoreboard is to isolate the spend on technology which is incorporated into products - "the wealth creation for the company," as he calls it. Mr Tyler says the £5m includes "our contribution to blue sky research."

Mr Tyler believes SSAP 13 has useful definitions but there are problems applying it to companies such as C&W. He says it works well in a drugs company where research costs can be later matched against the production of pills. But C&W either buys in its R&D or develops the bought-in fixed

assets of the system.

"Our R&D is all capitalised within our fixed assets," he says. And he is adament that he cannot have the 286m as both fixed and intangible: "You can't have it in two places." Again, the two sides are in talks

about what to do next year.

Considering the problems C&W had identifying R&D expenditure, it is not surprising that those whose job is to manage the creative processes of design, research and development have long been handicapped by the lack of quantitative data available. The Design Council is working on the problem - tracked by the Labour

Angela Dumas, research director at the council, says that work under way is focused on trying to quantify what goes oo in the "fuzzy front end" of design and research - upstream of the point when product specification allows traditional management accounting techniques to start produ-

accounting techniques to start producing data on costs and benefits.

"No one really knows what is going on - what resources are being committed," she says. As a result good ideas can "bump along the bottom", bad ideas can soak up resources, and innovations applicable in other industries can remain unrealised assets. Without crushing the creative process, she wants to investigate what is really happening - and to produce data that allows it to be managed

Three sets of academics are helping. Professor Peter Miller of the London School of Economics is involved in a case study with a high-tech multinational, while Dundee University is involved in accounting research on the problem. And a performance measure study, to provide benchmarks, is being undertaken by Dr Nick Oliver of the Judge Institute, Cambridge.

The Design Council's attempts to get inside the "right hand brain" of companies to look at investing in design as a process is being keenly watched by Labour. A policy document on innovation, science and technology due soon will say that the competitiveness of UK companies has suffered from a "retreat from science" under the current government.

Labour believes that the kind of work being done by the Design Council into improving management accounting practices could belp companies evaluate investment in research at the early stages of development. If the project yields data, Labour is likely to want it disclosed along with other R&D expenditure in the accounts of all UK companies.

Reformance by country: by Clive Cookson:

# Spending varies

The international R&D scoreboard shows huge variations between companies' performance in different conntries. The UK has the lowest R&D intensity - 2.5 per cent of sales - but Italy is sliding fast. R&D spending by Italian companies has fallen by 8 per

real in each of the past two years and their R&D intensity, which was 3.9 per cent in 1993, London was just 2.8 per cent last year. Flat, the Italian car glant, cut spending by 14 per cent last year — in contrast to the industry as a whole. This is ce mean partly a reflection of the fact arks, is that Fiat has a different

investment cycla to most of its competitors but even so it is not a good sign. The other prominent Italian company in cutting back on R&D is Olinity cutting back on R&D is Olinity cutting the electronics group, with spending down from £186m in 1993 to £175m in 1994 and £153m last year.

France is also performing poorly, with a decline of 2 per

poorly, with a decline of 2 per cent last year and 5 per cent in 1994. Most of the large French engineering groups are cutting R&O spending, while Bull, once the champion of the French computer industry, recorded a spectacular 31 per cent fall in 1995.

At the other extreme is Sweden, whose corporate R&D spending has been rising fast

and leaped by 21 per cent in 1995. Swedish R&D intensity is now 7.3 per cent. The country's biggest spender is Ericason, the telecommunications company, admired throughout the IT industry for its devotion to R&D; last year Ericsson spent £1.47bn on R&D, equivalent to 15.3 per cent of sales.

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Swiss companies also have an excellent long-term record of maintaining R&D intensity (6.3 per cent last year). The link between the two countries is Asea Brown Bovert, the balf-Swiss half-Swedish engineering group, whose spending rose by 12 per cent to \$\text{E39bn in 1995 (ABB appears under Switzerland in the scoreboard because of its head-quarters there).

Among large countries, the US performed most impressively last year, with an 11 per cent increase in R&D. This was led by the two anto giants, General Motors and Fird, well ahead of leading electronics companies, Siemens of Germany and Hitach, of Japan, at the head of the international scoreboard.

Japan. in contrast, has recorded a flat R&D expenditure for the fourth year in succession. The R&D intensity of Japanese companies has fallen from 5.2 per cent to 4.9 per cent since 1992.

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1,174 553 727 1,076 150 214 250 103 103 103 103 103 103 103 103 103 10	01 11 22 04 7.7 57 1.6 67 45 33,7 1.7 2.6 64 192 192 193 17 641	12.600 7.300	400 25 45.1 179.2 45 49 201.3 151.3 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.4 151.3	199 17.4 12.5 17.6 8.5 17.6 17.6 17.6 17.6 17.6 17.6 17.6 17.6	\$200 6,239 7,255 8,900 2,200 7,400 9,757 7,180 5,434 6,660 4,667 4,667 4,667 4,667 4,667 4,667 3,407 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 5,000 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13 26 491	1.5 0.7 0.2 218.5 0.5 42.7 2.5	15,501 11 1 3,384 1,524 6,522 7,667 1,127 1,802 916 12,504	11 4 724 4 5 9 9 8208 3 15400 13.8 19500 13.8 139.2 32.5 27.8 187.4 126.5 217.6 15.7 5084.6 39.6 11.7 13.3	222 91 15 144 189 17.5 129 91 78.5 11.1 23.3 12.5 32.9	2,369 1,563 3,100 2,500 984 1,282 2,126 1,916 842 7,802 2,134 1,807 2,077 2,077 2,077 2,156 1,810 2,168 1,285 1,191	2 573 1 794 1 900 2 269 1 156 2 45 2 2041 588 1 4810 1 362 1 782 1	2,153 7,37 1,400 2,407 21 1,842 2,518 1,607 2,012 6,290 1,822 501 1,810 1,231 1,028
Micharate Ti Esso Asea Brown Bovert BACC Roche Products Howlett-Pacturd Reckitt & Colman Smith & Nephree Tato & Live Johnson Matthey Mench Sharp & Dalome Rettish Steel Kortak Verity Europe BBA Reson National Power Coolsson Bayer	36,708 36,300 36,000 32,220 31,000 30,700 28,400 28,400 28,400 28,400 28,400 28,400 28,400 28,400 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500 28,500	12 1,4 1,9 1,9 1,5 1,5 1,5 1,5 1,5 1,5 1,5 1,5 1,5 1,5	777 0352 3362 03552 3562 55707 1 1 2 2 2 5 5 5 6 5 6 6 6 6 6 6 6 6 6 6 6 6	25 88 169 25098 169 169 169 169 169 169 169 169 169 169	800 4 900 1 558 19 568 19 997 106 882 13 700 1 880 1 800 1 984 17 984 3 984 17 986 1 990 1	17.2 94 28.7 16.9 16.9 16.9 16.9 16.8 16.9 16.9 16.9 16.9 16.9 16.9 16.9 16.9	21.7 4 16.5 2 16.5 2 18.5 2 19.6 2 19.6 2 11.8 1 11.7 2 19.4 2	11,300 48,6400 31,654,600 32,65,700 22,750 11,27,750 22,2750 12,2750 22,8700 22,8700 32,8700 32,8700 32,8700 32,8700 32,8700 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15,940 1,000 24,300 1,700 20,900 2,232 23,98 1,300 25,900 1,300 25,900 1,300 5,000 1,500 5,000 1,500 17,000 1,500 17,000 1,500 13,100	BPB Industries Sony Sanderson Electronics Scape Acom Computer Taxes Instruments Palan J Sulmstony BHISS Alcan Alternature Learnooth & Burchell Manag Hordooth Whithread Yorkston Water Fill Anglian Water Fill Loorto Yule Catto	5,900 5,862 5,807 5,800 5,746 5,746 5,500 5,400 5,400 5,400 5,400 5,400 5,110 5,110 5,110 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 5,100 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Burnfleid Ametrad Chemning Cape Hades MacLellan Bridon Volex Avis Syllome Pomair Turnstail Traces Componers David S Smith Southern Boctric	1,500 1,472 1,462 1,431 1,406 1,407 1,406 1,400 1,400 1,400 1,400 1,400 1,305 1,355 1,354 1,334 1,334 1,324 1,311 1,500 1,300	25 10 70 41 54 154 -3 56 17 -7 0 15 8 17 -24 51 -8 6 0	278 26 87 55 48 272 71 244 438 334 186 161 44 40 61 766 45 1,029 1,680	0.5 5.7 1.7 1.7 0.5 2 0.8 8.3 0.4 0.8 1.4 1.3 2.2 2.9 6.5 0.1	79 2 1,016 1,677 3,185 7,500 4,500 7,812 5,966 1,318 1,645 1,318 1,645 3,491	161.1 671 140.8 94 57.7 44.1 18.7 17.9 23.4 17.9 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 103.5 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McDoanel Information Systems Arjo Wigglas Appleton Datgety Transition House Morgan Crucible BSG International Redand Chipsocience MIL Aegis Rank Organisation Booker Blue Orde Industries Charter Tomides Laporte Lift Sciences International Scottish Nuclear Linade Kingdom Atomic Energy	14,900 14,900 13,500 13,100 12,550 12,000 12,000 12,000 12,000 11,900 11,900 11,300 11,300 11,300 11,300 11,300	7 20 3.4 3.4 3.4 3.4 3.4 3.4 3.4 3.4 3.4 3.4	721 448 11443 1 1603 0 0 5 241 1 0 0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	121,13 87,14 80,15 55 14,15 15,15 140,15 15,15 140,15 15,15 140,15 15,15 140,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 15,15 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7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2 1: 7.2	3.509 13. 2.100 10 17. 2.200 13. 1.300 10. 1.300 1	944 12,860 200 14,800 14,800 15,000 15,000 100 12,100 9,700 15,900 9,700 10,500 9,700 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 10,500 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Laboratorials Wheston Brant International Whiteleth Technology Paterson Zacharias Vickella ogic	4,000 3,989 3,229 1,884 1,863 1,863 1,862 3,457 1,356 3,300 1,262 1,162 3,104 3,104 3,104 3,106 3,002	21 10 38 2 7 35 7 5 0 28 22 10 10 24 6 45 2 6 10	96 143 144 3,764 92 357 124	0.5 1.6 2 1.9 0.7 0.2 1.0 3.6 1.0 3.6 1.0 3.6 2.3 2.3 2.3 2.4 1.5 2.5 2.5 2.5 2.5 2.5 2.5 2.5 2.5 2.5 2	11,163 109 3 2,958 4,749 4,004 92,273 2,843 14,342 5,147	425 21 32 485 5364 31 111.8 111.8 68.7 79.5 3.4 109.3	10.7 7.23 14.5 11.7 10.5 18.7 13.1 19.4 17 14 32.8 12.8 12.5	3.510 8.147 2.952 4.142 8.100 2.077 3.725 1.482 2.229 1.000 2.963 2.550 2.550 2.096 3.051	3.360 2.844 3.526 8.700 2.814 3.3404 3.404 2.774 1.580 3.014 2.556 1.581 1.581 1.581	3,146 1,820 3,527 7,500 2,581 2,228 2,861 1,670 2,527 2,913 1,326 1,205 1,205 1,205	Pegases Seton Hastitican First Technicing MacKachule TGI Radius Relico International Beagas Beagas Beagas Beagas Relico Beagas B	1,294 1,283 1,270 1,248 1,248 1,165 1,165 1,160 1,160 1,065 1,065 1,065 1,065 1,064 1,064	5 28 4 · 10 · 12 · 7 · 15 · 8 · 15 · 15 · 15 · 15 · 15 · 15	8 85 33 533 39 26 57 77 1,359 248 207 63 117 00 26 81 86 105	21.6 15 3.9 0.2 3.2 4.6 2 1.7 0.1 0.5 1.7 0.9 1.7 1.7 1.7	5,499 1,263 1,013 439 1,5637 3,548 11,5637 361,000 8,175 1,342 2,951 5,017 4/6 2,159 985	233 2 200.8 2 200.8 2 2 2 2 2 1 2 7 7.8 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	75.7 22 23.3 21.4 6.6 4.7 3.2 5.4 2.9 7.6 6.3	1,237 1,002 1,228 1,407 1,288 1,076 1,182 991 1,300 900 1,234 1,091 1,379 1,128 291 1,139 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128 1,128	7,182 502 1,714 1,141 1,141 1,160 1,032 574 940 400 1,237 970 1,672 999 1,672 1,044 1,724	7,764 591 765 1,389 1,124 7,817 788 677 1,400 1,131 874 1,679 1,000 764 775 1,817

